PRACTICE AND FINANCE OF FOREIGN TRADE

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PREFACE

THE foreign trade of this country has undergone considerable changes since the War, and, in particular, the trader faces graver risks than ever before of losing his goods or his money. In order to show what the risks are which traders run, how they can be avoided or minimised, and how the banks assist the trader, the term " Finance " is used in my title in its widest possible meaning. It has thus been possible to consider relevant the explanation for the benefit of importers and exporters of how the banks carry out their orders, and, for the benefit of bank officers, of how trade gives rise to the orders they receive. At the same time the factor of relative cost has been borne in mind in discussing the various methods by which trade is paid for, and an effort has been made to show how the necessary continuity from contract to performance is ensured. On this last point, experience shows the need for a wider understanding of trade by bankers, and of commercial banking by traders.

In my preliminary work, I have been encouraged by the helpful advice and criticism of many friends, for which I sincerely thank them. I have been fortunate, too, in my practical service in the Foreign

Department of The National Bank, Ltd., and in the wide experience which that service has given me, without which as a background I should never have undertaken to write this book.

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CHAPTER I

THE ORIGIN OF TRADE

THE discoveries of excavators seem to prove that man in his primitive state performed for himself many of the functions which, in a more advanced community, are performed by specialists. These findings are borne out by the study of those backward savages who, even today, inhabit out-of-the-way corners of the world; each man does his own hunting and fishing, building his own rude hut, making his own poor clothes. The mated male has the advantage of help from wife and children and some division of labour arises from their co-habitation.

Tribal Economy

When men had learned to live together in tribes, those who were skilled in the chase caught animals, others who displayed some aptitude in building erected shelters, yet others made bows and arrows. In short, a stage of tribal economy emerged, wherein labour was definitely divided by aptitude and man's wants were satisfied by each contributing to the common fund whatever his skill could provide. Any advance beyond the stage of the small tribe having

things in common, any extension of the territory ruled by one chief, leads to the problem of exchange; for the hunter who catches a bear is not ready to give more than a small portion for a fish, and a builder who takes a week to make a hut is troubled to obtain in exchange a just value of the goods of others.

Money Emerges

The difficulty of bartering articles of small value against others of greater value, whether value is measured by the labour involved and the risk run, or by the immediate desirability of any particular object, can only be solved by the use of some commodity as a measure of value. Various articles have been used, by reason of their acceptability within an area, as the common measure for which all other goods were exchanged. Fish-hooks, teeth, shells, wheat, pieces of iron or copper, the precious metals and various other things have been so used, whilst today gold, silver and pieces of paper on which are written promises to pay, are used in different countries of the world.

Foreign Exchange

Trade between tribes gave place to trade between petty kingdoms, sometimes by direct barter and sometimes by the intervention of a money medium acceptable to both traders. With the establishment of nations came the recognition of a legal money throughout each kingdom; sometimes this came

tardily, for China has only just put into force a money which is to be used throughout the country. Each country uses a money differing from that of others ; some use names for their units which others employ (such as " Pounds ", " Dollars ", " Francs ", and " Pesos ") but place upon the unit a value differing from that given it elsewhere. So trade between nations involves not only an exchange of their goods, but also an exchange of their moneys unless a barter is arranged : either the buyer of the goods must buy some of the foreigner's money in order to give it to the seller in exchange for his wares, or else the seller must agree to take payment in the buyer's money and then sell that foreign money in exchange for his own.

Problems of Foreign Trade

Contact with foreign nations has brought with it many problems besides that of varying monetary standards. We are confronted with language difficulties, with varying laws, with different commercial codes, with different standards of commercial integrity, and with conflicting national aims. Some of these difficulties tend to disappear, for differences in legal and commercial codes have been solved, at least partially, by the use of trade terms of universal acceptance, and by resort to arbitration instead of to law courts. But the conflicting national aims of the countries of the world are increasing, not decreasing, the difficulties of trade.

Had this book been written when the writer was at school, he could have quoted the words of the Economics master: "All goods tend to come from the countries in which they can be most economically produced." If it were not for policies of economic nationalism and that lack of policy which gives rise to mutual distrust, the tendency would be for each country to concentrate on producing those goods which natural resources, climate, and national attributes render it best able to send abroad. In actual fact, trade has to surmount the barriers of national frontiers, a course which is rendered more difficult by policies intended to promote self-sufficiency. So many countries would like to produce within their own borders all the goods their peoples are accustomed to consume, that they are making substitutes to replace imported merchandise, even where those substitutes are inferior to, and dearer than, the imports they are intended to replace. The movement towards self-sufficiency is supported by tariffs and quotas, whilst the mechanism of exchange restrictions and clearings does much to prevent the revival of international trade.

With all the obstacles, foreign trade persists. Some new industries have been established which would never have been started under free trade, but which, even so, have proved that they are economically justified. The result is an increase in purchasing power which may be directed towards additional purchases from overseas. There are, too,

many countries who tried for a time to " Take in their own washing ", but who now desire to open a wider door to foreign goods. Others whose troubles arose from the world economic depression, particularly those exporting primary products, have now a larger value of exports with which to buy imports.

Purpose of this Book

It would be easy to digress into economic theory at this point, but such is not the purpose of this book. That purpose is to set out the terms upon which importers in these islands buy goods from abroad, and upon which our exporters sell to foreign buyers. The pitfalls into which merchants have fallen in the past are examined in succeeding chapters, and it is sought to show the principles upon which are based the decisions in law cases arising from contracts in foreign trade, rather than to drag the reader through the arguments advanced on either side. Then an attempt is made to show how banks assist merchants in the performance of contracts, and the banks' forms are examined in order to indicate how continuity is ensured, from the original contract terms, through the credit instruments arising, to the completion of the instruction forms addressed to the bank in order that performance of the contract may be properly effected.

The manner in which any foreign trade is financed depends on the custom of the trade concerned, and the type of contract made between the parties ; the

onus of arranging financial facilities may rest with the buyer, or with the seller, or both may find it incumbent upon them to take certain steps. The credit applications made to the banks vary according to these circumstances. Here one meets with the difficulty that banks do not provide forms of uniform character ; there is, however, much in common between their forms, and the writer has therefore made up centralised types, featuring the dominant aspects of all, and used them as illustrations in Chapters IV and VI.

Any approach by a customer to his own bank will lead to a detailed study of that bank's particular forms, which are designed, by the introduction of alternative phrases, to meet the needs of varying trades and circumstances. By following the general principles of later chapters, it should be possible to complete the forms of any particular bank in such a way that the contract for sale of goods is performed in the manner originally intended by the parties.

CHAPTER II

THE SALE OF GOODS AND THE RIGHTS AND DUTIES OF BUYER AND SELLER

When, in the normal retail trade of any place, buyer and seller meet in the shop or market, an immediate exchange usually takes place: the buyer pays and takes his purchase with him. The two common variants of this simple contract for sale of goods are (1) those where the seller also undertakes to send the goods to the buyer's house; (2) those where credit is allowed.

These two points are the subject of a mutual understanding, by which either or both of the additional undertakings involved are tacked on to the simple contract whereby the price is agreed.

Delivery of Goods

(A) Inland. If the buyer and seller do not meet at some mutually convenient spot, as where goods are ordered by post, or if the goods are too heavy to be carried home by the buyer (e.g. a ton of coal), then the carriage of them must be undertaken by one or other: which one does it usually depends on the normal usage of the particular trade concerned.

(B) Abroad. Where an order is sent to a foreign

country, however, the question of who is to transport the goods is all-important. Foreign trade is very seldom in small lots, for either the goods will be very bulky (e.g. wheat) or else of high value in proportion to physical size (e.g. diamonds) and the transport of them will involve considerable expense. The apples which sell at the greengrocers for twopence each only cost the fruit-importer a halfpenny each in Washington State, U.S.A., or in Tasmania, but it costs him roughly three farthings each to bring them to their market here.

Contracts

(A) Inland. The practice has long been common for the bulky or costly goods to be quoted in wholesale trade at stated prices followed by various letters of the alphabet. We are all familiar with the advertisements for British cars at certain prices "F.O.R." followed by the name of the town where they are produced; alternatively the term "ex works" may be employed. Now it would be useless for an intending purchaser of such a car to send a cheque for the price of the model he wished to buy—the car would never reach him. He must do something further; he must go to the works and collect his motor himself, or send an agent; if the price is "ex works" his responsibility commences from the moment he or his chauffeur drives the car through the gates of the factory, and if the price is F.O.R. (Free on rail), he must arrange for the railway com-

pany to take over his property at the railway station nearest the works. In other words, he appoints the railway company his agent for the purpose of taking delivery. There is this further point, also of great importance, that as he becomes liable for the car at the points mentioned in the alternatives above, he is also responsible for insuring it from the moment he takes possession.

(B) Foreign. In foreign trade we find similar cryptic initials in common use: certain recognised duties arise from the adoption of them, both the buyer and seller being bound by long international usage in trade, to which is added certain legal recognition in all the important countries of the world. (Where the laws of particular countries recognise a particular code, not agreeing with that generally accepted, they will be specially mentioned in Chapter III.) Prices of goods quoted by a seller in one country to a possible buyer in another, whether by letter, cable, catalogue, or other offer for sale, must always state how and where delivery is to take place; that is, where the buyer is to take over the property in the goods, if he accepts them at the price offered. If the parties are not of the same mind on this important point, one or other is likely to meet with considerable unexpected expense. Omissions and misunderstandings as to what was meant when a particular price was quoted and accepted, have on many past occasions led to expensive and needless law suits.

The F.O.B. Contract. The first of the recognised forms of contract to be considered here is the "F.O.B." one. The terms "F.O.B. Seller" and "F.O.B. Buyer" are commonly used, by merchants and lawyers, to mean respectively "The party who has sold goods on the understanding that they were to be FREE on BOARD" and "The party who has agreed to accept delivery of, and to pay the stipulated price for, these goods if placed FREE ON BOARD". In the letters or cables which preceded the actual agreement, wherein the price was quoted, and an offer made and accepted for a particular quantity, a particular port in the country of origin will have been mentioned: thus the seller may have offered some jute at such-and-such a price "F.O.B. Calcutta". If the buyer agrees to the price and the terms, and orders a definite quantity which the seller agrees to deliver, then the duty of that seller is to produce the goods, get them to the port and see they are actually placed on board the vessel which the buyer provides. But whereas the two parties may have exchanged written, signed and stamped "contracts" for the sale (and if they do not, the law will construe a contract from the letters or cables exchanged) the mere mention of "F.O.B." will bind upon them the duties which are here set out, without either of them having written or signed any separate agreement to undertake those added duties.

When the F.O.B. seller has placed his goods, of the agreed quality and to the agreed quantity, on

board the vessel stipulated, his duties cease: his further interest in the deal is but to get paid the amount due to him. The F.O.B. buyer commences to fulfil his side of the contract before the goods are put on the ship, because he must provide that ship. This may sound rather absurd, since so few traders, with even the largest turnover, ever buy so large a consignment of goods as to require the whole cargo-space of a modern ship. The important point is that the shipping company is asked by the buyer to place some cargo-space at his disposal in order to carry his goods home. The shipping company is the appointed agent of the F.O.B. buyer; when the goods have been received by them on behalf of the buyer, the seller cannot seize on them and say: "I want my goods back because the buyer has not paid" (what is called legally "Stoppage *in transitu*" cannot apply here) because in the eyes of the law the principal (F.O.B. buyer) and agent (shipping company) are one and the same: delivery to the master of the vessel constitutes constructive delivery. It is true the goods are not yet actually in the hands of the buyer, but they are as good as in his hands from the legal viewpoint, as they are held by somebody acting on his behalf.

The buyer will also insure the goods from the time that they are placed on the vessel: if the vessel sinks, or is cast away, or is confiscated by an enemy or pirate, that is the buyer's risk. He cannot come back on the F.O.B. seller and claim replacement of

the goods on the grounds of non-delivery, for those goods were duly placed in his agent's hands. The method by which this risk is covered is for the F.O.B. buyer to approach an insurance company or Lloyds underwriter and take out a policy of insurance; the method by which the insurance is arranged is explained in detail in Chapter III.

C.I.F. Contract (i.e. " Cost, Insurance, Freight "). By far the larger part of the imports and exports of these islands is arranged on " C.I.F." terms. Here, the seller is responsible for the original cost of the goods in his own country, by which he provides those goods, for placing them on a vessel proceeding to the buyer's port, and for payment of the necessary freight to the shipping company for their services in carrying the goods, and for providing the necessary insurance.

It is usual for the price of the goods to be quoted as

(1) so much per unit quantity;
(2) stated to be C.I.F. terms;
(3) coupled with the name of the port in the buyer's country at which they are to be handed over:

e.g. SUGAR " 5/- per cwt. C.I.F. Liverpool ". In this type of contract the seller arranges for the policy of insurance and pays the premium to the insurer; the buyer is not concerned with the insurance unless he has neglected to arrange that such cover shall

include the " War risk ". If he has not mentioned to the seller that the insurance must also extend to this additional risk (brought into prominence recently by the Italo-Abyssinian dispute) the normal policy does not cover him. He, the buyer, must run the risk himself or take out his own policy. This does not involve insuring against the marine and fire risks again, they are already covered ; he merely has to pay a small premium (say, 20% of the ordinary one) for a special policy to cover the shipment against war.

One very important point about the C.I.F. contract is that the shipper is the agent of the seller ; the seller engages him and pays him his freight. Thus the seller still has " possession " of the goods in the legal sense whilst they are in transit in the hands of his agent. Now if the buyer refuses to pay, or becomes insolvent and cannot pay, the seller can say " My agent still holds the goods ; I shall not let him deliver them to the defaulting buyer ". He thus has the right of stoppage *in transitu*, which he puts into effect by instructing the shipping company to hold up delivery of the merchandise.

In order to complete a contract for sale of goods, the seller has to demand payment and tender the documents of title which represent the relative merchandise ; the buyer must take those documents, and either pay for them or arrange for payment. Chapter III sets out the documents which will be thus passed from seller to buyer. Meanwhile, the

present chapter is incomplete without some reference to the variations of the C.I.F. contract.

C. and F. ("Cost and Freight"). It may be that buyer and seller arrange that the former is to effect the insurance, but the latter is to pay the freight. It does not matter if, after the contract is arranged, the buyer finds that it would be cheaper or otherwise to his advantage for the seller to insure. In that case he can ask the seller to arrange the matter for him as his agent and claim the premium. The important point is that certain known expenses are included in the price which the buyer has to pay, and both parties know where they stand. The buyer can safely reckon that he is paying a certain price and certain expenses will be extra. In this case it is the insurance, in the case of the next example—

C.I.F. & E. ("Cost, Insurance, Freight, Exchange"), it is the *Exchange* which has been arranged for; on any loss in exchange arising (as in South Africa where they use a "Pound" and a small premium or discount may be quoted) the seller knows that he has to pay or receive the small difference. Thus the buyer is certain that all the expenses, until he takes over the merchandise at his port, will be paid by the other party, the price being net to him at that point in his own kind of "Pounds".

Other Contracts

A number of other variations arise in practice, whereby a banker's charge or some other expense is

provided for, but they all have this in common—that the initials attached to the price represent the obligations which the seller is agreeing to incur, and therefrom may arise by custom the rights and obligations of the parties.

As a general rule it is far safer for parties to a contract which imports more than normal C.I.F. obligations, to agree what they mean by those additions. Although the terms "C.I.F. & E." and "C.I.F.c.i." have been coined, and used, there is sometimes a doubt as to their precise interpretation in regard to the added duties of the seller. The International Chamber of Commerce recommend that "any element of a quotation additional to the ordinary quotation should be clearly, explicitly and fully set forth without the use of abbreviation". This particular recommendation occurs amongst their comments on the trade terms of the U.S.A., but its commonsense should appeal to traders in touch with other countries.

An example of a Fruit Contract is given here, and it may help the reader to trace how the terms of this particular contract would be carried out, both in connection with the delivery of the goods, and also the method by which payment is provided for (Importers Credits are explained in Chapter VI). Such a contract is signed by the seller and sent to the buyer in duplicate; the buyer retains one copy and sends the other back to the seller, when he has signed it in the bottom left-hand corner.

Contract No. 999

FRUIT EXPORTERS, INC.

SAN FRANCISCO, CAL.

BUYER : British Fruit Importers, Ltd.

ADDRESS : London. hereinafter called the buyer, has this day bought, and Fruit Exporters, Inc. of San Francisco, Cal., hereinafter called the seller, has this day sold the under-mentioned goods, subject only to terms and conditions stated hereon.

Port of Destination : Liverpool, purchased per cable of 14 July, 19....

Shipment : from Pacific Port during July 19.... (seller's option). Route and Type of Stowage : In refrigerated space per s.s. "Fruit Carrier" scheduled to sail from Pacific Coast 26th July, 19.... for Liverpool, via Panama Canal.

Terms of Payment : cabled confirmed credit, operative in San Francisco, to be established by buyers in favour of sellers.

No. of Packages	Size of Packages	Brand	Grade	Variety	Sizes	Price C.I.F. Port named per package
1000	Boxes	"SANFRAN"	U.S. No. 1	Beurre Hardy Pears	120 180s.	$3.05 Liverpool

Documents : Seller shall provide : Invoice ;
Federal Inspection Certificate ;
Insurance Certificate or Policy ;
Bill of Lading (Ocean lading for shipment via Panama ; thru rail and ocean lading for overland shipments).

Quality and Grading as shown by U.S. Government Inspection Certificate is final.

Force Majeure : Non-fulfilment in whole or part and/or delay in completion of this contract due to crop damage, government restriction, strikes, fires, and/or other causes beyond the control of seller is not cause for cancellation, rejection or damage to buyer.

Insurance : Seller covers Marine Insurance under F.P.A. conditions and when in steamer refrigeration stowage against damage arising from breakdown of ship's refrigerating machinery if for more than 24 hours.

Arbitration : In the event of dispute on points other than those covered by the U.S. Government Inspection Certificate and/or condition on arrival, buyer and seller agree to submit to, and abide by the results of, arbitration to be held in the Port of Destination in accordance with the custom of the Trade, or before the International Apple Association, Rochester, N.Y.

Date : 15th July, 19....

Signed for Buyer by............ Signed for Seller by..............

CHAPTER III

DOCUMENTS USED IN FOREIGN TRADE: THE FURTHER RIGHTS AND DUTIES OF BUYER AND SELLER

A MERCHANT who has sold goods to a foreign buyer hands them to a shipping company at his port and is given in exchange a Bill of Lading: if he has sold on C.I.F. terms he takes out a Policy of Insurance; he also makes out an Invoice addressed to the buyer. We will examine these documents in that order.

THE BILL OF LADING

The Bill of Lading is issued by the shipping company, or their agents, usually in a " Set ". Two or three identical bills are issued to the exporter at the time of shipment, and it is clearly stated on each part how many there are in the complete set. Now, if the exporter wishes to send one only out of a set of three to some other party, his covering letter will say: " I enclose 1/3 B/L ", meaning " I enclose one part bill of lading out of a set of three ". It is common practice amongst traders and bankers to refer to the parts of the set in this manner.

Clause Paramount

Bills of Lading issued in Great Britain or Northern Ireland bear as the first of the " Clauses "

printed on them, the "Clause Paramount" by which it is stated the carriage of the goods is subject to the terms and conditions of the Carriage of Goods by Sea Act of 1924. Certain laws are embodied in that Act, whose effect is to ensure a simplification of the contract of carriage; it is possible now for exporters to know the risks and liabilities they incur. Other succeeding clauses set out what the ship may do if various things happen (for example, if the goods are refused entry at the port of destination), how the goods are to be stowed on the ship, and other similar conditions governing their carriage and delivery.

B/L as Acknowledgment

When a particular set of B/L is issued it acknowledges receipt of the goods named; the packages handed over are identified by marks on the outside of the bales, cases, tubs or other form of container, which marks are stamped or branded on the packages by the exporter for that purpose. The shipping company's agent or employee who actually counts the packages as they are handed over to him cannot know what is inside; he receives a certain agreed number of packages which have been fastened, and may be sealed. He is merely concerned with the carriage of those packages and is not concerned with the quantity and quality of the contents. The B/L therefore acknowledges the goods as so many packages and states what the goods are, or purport to be,

in somewhat guarded terms: example—" 50 cases DECLARED AS . . ."

Contract of Carrier

Besides being an acknowledgment of the goods, the B/L is a contract for their carriage. The price charged by the shipping company for their services is called " Freight ". When the freight is " Prepaid ", that is, paid by the exporter when he hands over the merchandise, the B/L is clearly marked to that effect. If the contract for sale of goods is C.I.F., the exporter must see that he pays the freight, and get a " Freight Paid " B/L. If by any chance he omits to pay the freight when handing over the goods, he can afterwards pay it and get a freight receipt from the shipping company attached to the B/L.

Payment of Freight

In the case of goods sold on F.O.B. terms the freight is not necessarily prepaid at the exporter's end; it is no part of his duty to pay for the carriage, and the B/L he will get will usually be a " Freight Collect " one. The freight is then collected from the foreign importer, either after the goods arrive but before he takes them away, or possibly before the goods arrive. The documents usually reach the buyer before the goods, so he has some time in which to meet this necessary disbursement.

Should the shipping company refuse to take over

the goods on " Freight Collect " terms, then, in order to protect his buyer, the F.O.B. seller pays the freight, gets a " Freight Paid " B/L, and claims from the buyer the amount thus paid away in excess of his obligations. This he does by adding the sum disbursed to the total of his invoice (explained later in this chapter).

Carrier's Lien

The shipping company has a " Lien " on the goods for any unpaid freight, so they will not in any case part with the goods unless and until their charge is paid. A " Lien Clause " appears on the B/L itself, and the right to retain the goods can also arise from General Average or Salvage. If a ship and cargo are exposed to danger of damage or destruction, in averting which some part of the cargo or the ship suffers damage or is destroyed, the loss is known as a " General Average Sacrifice ". A partial loss of goods, caused by a peril not amounting to a general average loss, is a Particular Average Loss. A contribution is claimed from all the shippers in respect of the former, and a lien exists in respect of such loss, similar to that arising from unpaid freight.

The Seller, the Buyer and the B/L

Where it is agreed that the goods are to be " Free on Board ", the seller must see that the goods are placed on a boat, and usually on a particular boat

which has been specified by the foreign buyer. This follows from the principles laid down in Chapter II. It will not do for the seller to hand over to the shipping company at the port or wharf, or even at a quay alongside the particular vessel: the seller must do more than this. He must see that the goods are on the specified boat arranged for by the buyer, as the buyer has a right to expect. If the buyer does not receive the expected merchandise on that boat, he may be placed in a very awkward position. He may have sold to other people on the terms that the goods are to arrive on that certain vessel, and if they do not actually arrive he is fully justified in refusing the goods when they subsequently come to hand, and also in suing the seller for any loss he may incur in buying in to meet his commitments. On the other hand, if the goods arrive before the buyer expects them, through being sent on the wrong boat, he would be put to the trouble and expense of warehousing the merchandise until the time at which they should have reached him, and for which time he has re-sold. In either case the buyer has the right to refuse both the documents and the goods unless the ship specified actually carries the goods.

The B/L is made out in one of two forms, either "Received on Board the s.s. . . ." which is the form the F.O.B. seller must see he gets, or the "Received for shipment" form. The former is sometimes worded "Shipped by the s.s. . . ." the word SHIPPED being printed in heavy type. This form is usually

referred to as a " Shipped " B/L and sometimes rather loosely as an " On Board " B/L. The two terms are practically synonymous, but it would be more correct to refer to each according to the actual wording it bears.

In this country the F.O.B. seller must get a Shipped B/L, by which is meant a bill of lading evidencing shipment on board an *ocean-going* vessel. Contract law in the U.S.A. is more lenient in its interpretation of the term " On board ", for there it may mean either of three things :

(1) on a railroad truck (cf. " F.O.R.", Chapter II);

(2) on board a lake steamer;

(3) on board an ocean-going vessel.

Should the buyer wish to secure the shipment on a *vessel*, he must stipulate " F.O.B. vessel ". If he requires the goods to be transported by a particular vessel, he names that vessel. If he requires shipment on board an ocean-going vessel, he calls for an " On Board Ocean B/L ". British importers of American goods should be careful how the B/L is described in the contract, particularly where the goods originate from up-country.

(See also " Through B/L ", below.)

When a C.I.F. seller takes his goods to the shipping company, and pays the freight, it may or may not satisfy his type of contract for sale of goods, if he merely does that and no more. If he takes a " Received for Shipment " B/L he must consider :

(*a*) whether his contract with the buyer had led that other party to expect the goods by a particular vessel; if so, he must see they go on that vessel; if not, then:

(*b*) whether his contract calls for shipment by a particular date; if so, he must see that the shipping company are not still holding the goods at the port when that day arrives. He may have agreed to ship "During December", and have obtained a "Received for Shipment" B/L dated 28th December, and yet not have carried out his bargain. He must see that the goods are on board a vessel bound for the buyer's port, before midnight on the 31st December.

(*c*) If he has agreed to ship neither by a specified vessel nor by a specified date, he may still not be safe in accepting a "Received for Shipment" B/L. He must consider what is a "Bill of Lading" for purposes of C.I.F. contract within his own trade. Certain trades (Jute and Fruit, to instance only two) have customs in this connection which are universally recognised, agreed upon, and upheld by legal decisions. The writer does not pretend to know all these customs—it is not necessary for him to memorise them, for if any point is raised in practice he can refer to the recognised sources of information, of which the trade associations are the most important.

Where a "Received for Shipment" B/L is obtained by a seller in exchange for his exports and such is not the custom of his trade, he runs the risk

that the buyer may refuse to pay when the time comes. The courts of law are very sympathetic to the recognised trade codes, and it is more than likely that the buyer would successfully plead that the "Received for Shipment" B/L is not a "Bill of Lading" for purposes of that particular trade, if such were, in fact, the case.

Where the contract terms are C.I.F., under U.S.A. laws the "Received for Shipment" B/L is generally looked upon by exporters as sufficient, so that British buyers of U.S.A. goods should specifically state, when arranging to buy the goods, that they require "On Board Ocean" B/L.

The Parties to the B/L

The B/L embodies an undertaking on behalf of the shipowner to deliver the goods: a "consignee" is named in the document, to whom the goods are to be handed over, and it is usual for the words "Or order" to be added to the name of the consignee. This party is normally the importer who has bought the goods, but may be an agent at a port where the real buyer lives inland. In some cases the seller of the goods may have the B/L made out to his own order: this occurs, for example, where he has shipped his goods before arranging their sale, or where he has at that time not assigned specific packages to meet specific sales. He may have shipped ten lots each of 100 bales on one particular vessel, obtaining 10 sets B/L in exchange, whilst he has only sold six lots and

is negotiating the sale of the other four: when his negotiations reach a successful conclusion, he can proceed to endorse his name on the bills of lading and send one to each of his ten different buyers.

Effect of Endorsement of B/L

The law recognises mercantile practice, for where a seller (or an agent acting for a seller) to whose order a B/L is made out, endorses his name to that bill of lading by writing it on the back, and sends that B/L to the buyer (or the buyer's agent) with intention that the said buyer shall get those goods, the goods do actually pass according to the intention. The B/L is, for this purpose, a document of title representing the goods whilst they are inaccessible in the ship's hold.

An endorsement by the consignor or consignee in the manner described in the last paragraph, a mere signature on the back of the B/L with no words of any kind added thereto, is called an endorsement "In blank". The opposite form is known as endorsement "In full". Here a transferee is named, for the party to whom the goods are deliverable (as named on the B/L) writes above his endorsement: "Deliver to X." The further endorsement of the B/L by X is now necessary before the shipping company will deliver the goods. Sometimes when a bank is interested in the transaction they will ask for the B/L to be to their order: in that case it can either be made out to their order, or the party to

whose order it is made out may endorse it to the bank, the effect in either case being that the property cannot pass without the knowledge and consent of the bank named.

Forwarding the B/L

For safety's sake one part of the B/L is sent to the buyer by the first mail and the other or others of the set by a subsequent mail or alternative route. Sometimes one copy is sent " In the ship's bag ", so that there is no chance of the goods arriving before the documents, whatever happens to the other parts, and the buyer will thus be able to deal with the goods immediately they arrive. This prevents the possibility of the goods being dumped on a quay where they might come to harm by reason of pilfering, weather conditions or other causes, or incur the heavy charge of " Demurrage ".

Delivery of Goods

The first copy which is presented, complete and regular on the face of it, to the shipping company after the goods arrive at their destination, will get possession of the goods. If the B/L states that the goods are to be delivered to a named party (and not " To order ") the shipping company have only undertaken to deliver to that party and nothing more ; they will expect him to produce a part of the B/L, but they cannot insist on his so doing. With an " Order " B/L, the goods are handed over to the

party to whose order it is made out, providing he has endorsed, or to the subsequent holder; if merely to "Order" without name mentioned, the exporter by whom the goods were shipped must place his endorsement on the B/L before sending it to the buyer, else that buyer will not be able to secure the merchandise.

The seller should see that the full set passes to the buyer, for if one copy gets into wrong hands after it has been endorsed, the buyer may go to get his goods only to find that they have been taken away by a cheat. It is of little comfort to him to know that if he can find the cheat he may be able to get the goods back. If the miscarriage is due to negligence on the part of the seller, that is, if by his carelessness an endorsed copy has got into wrong hands, the buyer has the right to refuse the documents. Clearly, too, if he went to the length of stipulating in the original contract for sale of goods for ALL the parts of the B/L, he need not pay until all of them reach him.

Parts and Copies

When a set of B/L is originally issued each part is signed. In the case of an "On Board" or "Shipped" B/L, the Master of the vessel signs, but in the case of a "Received for Shipment" set the copies are signed by the agent of the shipping company at the port of embarkation. Each copy is stamped with a 6d. impressed stamp, if issued in this country. For convenience, two unsigned *copies* (not

parts) are made out at the same time. One of these unstamped copies is kept by the seller in his files for reference, and possibly for use as evidence if needed in an insurance claim. The other is the " Master's copy " which the Master of the ship keeps so that he can identify the goods when it comes to getting them ashore. These two copies are clearly marked with the word " Copy " for safety, and are left unsigned in order to avoid confusion with the stamped parts.

" Clean " v. " Claused " B/L

If the goods show signs of damage when the Master or agent receives them he draws attention to the fact on the B/L he issues, by stating " One bale torn ", " Two cases damaged ", " Four crates unsealed ", or other appropriate clause. If the goods appear to be in order he signs the more usual "Clean" B/L which says " . . . in apparent good order and condition ". Thus it is ensured that if damaged packages are handed to the shipping company, the fact is clearly indicated to all parties. If, on the other hand, a Clean B/L is given, and then the packages are damaged whilst on board, the buyer knows at once and can bring the damage to the shipping company's notice.

Dock and Mate's Receipts

It may be that the seller will take his goods to the shipping company before the arrival of the ship by which he wants them to be exported. In that case he

will put the merchandise on a quay or wharf and get a Dock or Wharfinger's Receipt. Or it may be that ships do not or cannot come right up to the quay-side and goods have to be sent out to the roadstead in smaller boats (" Lighters ") ; in this case a Mate's Receipt is issued to acknowledge the goods. Where a seller gets any one of these types of receipt he does not send it on to the buyer, but makes out the B/L from it and tenders both B/L and receipt to the ship's master or agent ; the B/L is signed by that party, and the seller gives up his receipt.

Through B/L

Where there is no direct shipping link between seller's and buyer's port, the seller having to arrange the carriage right through to the other party will get a " THROUGH " B/L, arranging for the necessary transhipment, and subsequent carriage by the second vessel. He must see that he gets a B/L covering the whole voyage to the C.I.F. buyer's port, not one that merely undertakes shipment to the intermediate point with an expression of a pious hope that they will there be placed on a vessel covering the remainder of the journey to their destination.

The " Through ", " Thru " or " Transhipment " B/L is commonly used in the U.S.A. to cover exports which are sometimes not even on a vessel, but merely on the railroad, and the term " Ocean " B/L refers to one issued for a sea voyage ; in the latter case this may be of the " Shipped " or " Received

for Shipment" type. As has been observed, British buyers usually call for "On Board Ocean" B/L if they wish to get a "Shipped" B/L, as understood in this country, and thus they leave nothing to chance.

THE POLICY OF INSURANCE

This document is a signed contract to cover the risks of damage to, or loss or destruction of, goods or other property. For our purpose, i.e. in connection with merchandise moved across land or sea or both, we need not consider the wider topic of insurance generally.

The seller of goods C.I.F. (or the buyer F.O.B.) approaches an insurance company or Lloyds underwriter, pays a premium according to the rate determined in the insurance market by supply and demand, and receives in exchange a contract, usually evidenced by a policy. Such policy is made out in favour of the party effecting the insurance, and he can endorse it by writing his name on the back. He can "Assign" it, by thus endorsing it and then handing it on; he can put it with a B/L and, if both cover the same lot of goods, hand the two documents to somebody who has bought those goods from him, even if the goods have not yet arrived.

Stamping

An insurance policy issued in this country must be stamped with an impressed stamp. Insurance

policies issued abroad to C.I.F. sellers come into this country unstamped, of course, in which case they must be taken to the Revenue authorities for stamping within ten days of their arrival.

Risks Covered

The party taking out the policy should see that it covers all the risks he wants covered, according to what he is bound to do by the terms of the contract for the goods; particular points have to be watched in particular trades, some goods being more prone than others to damage by sea-water, breakage, breakdown of refrigerating machinery, or other causes.

The Floating Policy

The F.O.B. buyer or C.I.F. seller may take out a separate policy for each particular lot of goods, or he may have a "Floating Policy", otherwise called an "Open Cover". An importer or exporter interested in a series of shipments makes use of this floating type, taking out one large policy for the total of all his expected shipments whilst his season is on (if engaged in seasonal trade), or to cover a round total in value if in a more steady all-year business. As shipments are made, he will "Declare" them under the policy, thus reducing the total available cover. For example, a jute importer might arrange for a total floating policy to cover expected shipments up to a total of £10,000: then

he places an order for £1,000 by writing or cabling to his F.O.B. seller in Calcutta, so he fills in a declaration form for £1,000 plus his expected margin of profit of £100, £1,100 in all, and sends it to the insurer. He makes a note of the amount " Declared off " on the back of his policy, and then considers it valid only for subsequent shipments up to a total of the balance outstanding, namely £8,900.

An alternative form of floating cover is used to insure the various goods which are imported by a buyer who trades in a variety of merchandise, or who gets his supplies from many different countries. Whereas jute to pass in several shipments all from one place of origin is insured at the same rate of premium agreed when the policy is taken out, the buyer of various different commodities has to pay a variety of premiums according to whether the commodities are perishable (fish or eggs), dangerous (explosives) or of high value in proportion to bulk, and thus more easy to steal (platinum, gold or diamonds). In the example of jute, the insured party pays one premium for all the merchandise at the agreed rate per cent., in the other example he pays an agreed " basic " rate, and the balance due to or from the insurer is adjusted when the policy is completely used up.

Declarations on Floating Cover

A C.I.F. seller having a Floating or Open cover for all his shipments declares each separate shipment

as he makes it, and issues a certificate giving all the particulars of the specific consignment, stating the "Declared Value" of the goods, the name of the ship by which they are conveyed, their quantity, quality and description and the distinguishing marks used to identify the packages: that is, all particulars as they would appear on a separate policy had one been taken out. This certificate is placed with the other documents and passed to the buyer, but it conveys to the buyer no right to sue the underwriter under our laws, as any action in our courts to recover on a contract of insurance must be supported by the policy. The lawyers would say here that there is no "Privity of Contract" between the underwriter and the buyer of the goods: if he wanted to sue the buyer would have to get the seller to act for him, when this further disadvantage arises—there may be some premium owing by the seller to the underwriter, and until this premium is paid the buyer cannot get his money.

Certificate under Floating Cover

Occasionally certificates of insurance issued by C.I.F. sellers are counter-signed by the underwriters, or their authorised agents, but this merely clears the buyer's mind of doubt as to whether or not the insurance risk has been covered: unless the buyer gets the actual policy he cannot sue in his own name. The fact that certificates of insurance are so widely accepted points to a high degree of commer-

cial morality, but is no comfort to the importer who re-sells on C.I.F. terms only to find that he cannot fulfil his obligations by delivering a policy, because he neglected to ask for one when he originally ordered his goods. It has been held on more than one occasion in our courts of law that a certificate is "Not a good tender" under C.I.F. contract.

Danger of Certificate

Under English law the C.I.F. buyer has the right to demand a policy of insurance, but under U.S.A. law he has no such right, unless he has expressly called for the policy in the original contract for sale of goods. Thus normally the American seller only passes on a *Certificate* of insurance, made out by an insurance company to him, and endorsed by him. If the British C.I.F. buyer has re-sold the goods on C.I.F. terms to other parties, those parties can demand a policy, and will take nothing less. There is this to be said about the certificate used in American trade—that it is usually issued by an insurance company, and the buyer gets the right to claim on that company direct, without having necessarily to approach them through the C.I.F. seller.

The Cover Note

When insurance is arranged through a Broker, a "Cover Note" may be issued; this is a certificate given by the broker, an agent, to say that certain insurance is being arranged by him. It is not

stamped, it is not a legal document, and is only intended as a temporary memorandum to record that the actual policy is on the way: it might be produced, if necessary, as evidence of good faith, but it cannot be sued on as there is no "Privity of Contract" between the insurer and would-be insured. It should not be accepted by a C.I.F. buyer, who has the clear right to refuse it.

Certificate v. Policy

This section of the chapter is best closed by an explanation of the difference between a policy and any other form of evidence that insurance has been effected: whereas the policy sets out all the terms of the contract of insurance, which can thus be read by the parties and interpreted in a court of law, no certificate or cover note does so. In this the certificate or cover note falls short; it is essential that the C.I.F. buyer should be able to see plainly from the document which comes into his hands that he has been covered by insurance against all the risks against which his contract to purchase the goods indemnifies him.

THE INVOICE

This document is made out by the seller, is addressed to the buyer, and gives a statement of the transaction. It normally shows the quantity, quality and description of the goods together with a statement of the unit price and, usually in cash

columns on the right-hand side, a statement of the total price payable. In order to identify the packages which have been shipped, the seller gives a specimen of the marking which has been put on the cases or bales, and in order to identify the transaction to the buyer, he quotes any reference numbers (Order or Contract numbers) which have been allotted to that particular order. These documents vary a lot in the detail which appears on them; some merchants use their ordinary letter-paper for invoices, others have special documents printed, and yet others use a type of "Fanfold" or "Manifold" form, so that carbon copies can be taken and used by their office staff as records of the transaction in their files and book-keeping system.

Reference to other Documents

It is usual for the invoice to specify the other documents to which it is attached, referring to them by their serial numbers, and, in so doing, advising the buyer of the name of the boat and the port to which it is bound. Any additional charges which the seller incurs on behalf of the buyer are added to the cost of the goods. If the contract was arranged on C.I.F. terms there can be very few additional items of this type, the only one really common on invoices at present in use being that which arises when the buyer does not stipulate for "War risk" in the original contract, but subsequently asks the seller to secure cover for the risk as an addition to

the marine policy. The extra premium of, say, 20% additional to the marine premium, is then claimed from the buyer by being added to the invoice.

Invoices for Freight and Insurance

Where a contract is F.O.B. the seller is not liable for freight or insurance. It may be, however, that the buyer asks the seller to take out a policy or issue a certificate of insurance, in which case the seller will either add the amount to his main invoice or, as is more usual, make out a separate invoice for the insurance premium. The latter course is preferable as it separates the two distinct contracts into

(1) That in which goods are sold by F.O.B. seller, who thus acts as a principal in the deal ;

(2) That in which the seller arranges insurance on behalf of the buyer, for which purpose he is the agent of the buyer.

In a similar manner, the F.O.B. seller may pay the freight and claim it from the buyer : shipping companies prefer to get the freight prepaid, and sometimes refuse to take merchandise on any other terms. Then as the buyer must eventually pay the freight, the seller claims it from him in the same way as he does the insurance premium.

Invoice as Account Rendered

One could summarise what has been said in regard to this document in the words " The Invoice is *prima-facie* evidence of the contract of sale and purchase ". It is, in fact, used in this manner : it is the

statement of account rendered to the buyer, and he cannot check it until he receives the goods: until that happens, he accepts the invoice as showing what he owes on the transaction.

OTHER DOCUMENTS

It may be that other documents will be submitted by the seller in support of his invoice. He may go to the port authority when he is shipping his goods and get them to check the weights of the packages; in this case he obtains from them an official "Weight Note" or "Certificate of Weights". This is an important document where buyer and seller have agreed that the price shall be so much per lb., cwt., or ton "Shipper's Weights"; the particular goods may be subject to loss in weight by evaporation (e.g. artificial manures) so that it is most important for the seller to get a check on the weight for which he is to be paid. He will only be paid for "Net" weight, of course; that is "Gross" or total weight less the packages, and these particulars are given on the official certificate.

Other goods (e.g. metallic ores) have to be up to a certain standard, in connection with which a Certificate of Chemical Analysis is obtained from an Official Analyst, and attached to the invoice. When perishable goods are shipped the seller usually gets the goods officially inspected, and sends the relative certificate with his invoice (e.g. Salt Fish, Fruit, etc.).

In the case of many countries, permission to land imports is refused unless a Certificate of Origin is produced by the buyer. This document may form part of the invoice itself, when the whole is known as a "Certified Invoice". The essential feature is a specification of the country of origin, saying where the goods were originally grown and/or manufactured. There may be a preferential tariff in favour of goods from particular countries, and in ensuring that the goods have not been merely re-shipped by a seller who has brought them in to his own country from some other place of origin not enjoying the preference, this document is of particular importance. The Certificate of Origin usually bears at the foot a formal declaration as to the truth of the statements it makes, which is signed by the seller. A similar certificate may be pressed into service where goods of a particular type from certain countries are banned (e.g. cattle from a port in whose hinterland foot-and-mouth disease is rife), or where the country of their growth is a material part of the description of the goods (e.g. Para rubber or Ceylon tea).

Exporters of goods from this country to Australia complete an official printed form known as the "Certificate of Origin and Value". The statement of the value of the goods in a declaration made by the exporter (the seller) is of great use in determining what import duty, if any, is payable when they reach their destination. In some cases it is even necessary for the invoice, or a supporting document, to state

the value F.O.B. at the port of embarkation (in the country of export) and also the value C.I.F. at the port of disembarkation (in the country of import).

The laws of many importing countries require the other documents to be supported by a Consular Invoice. This is essentially a copy of the commercial invoice, made out by the seller on an official form, and taken by him to the Consul of the country to which the goods are being sent. The Consul appends his signature over a revenue stamp of his own country. This document facilitates the clearing of the goods through the customs at their destination and serves as authentication of the particulars it sets out. Thus a British seller exporting goods from Liverpool to a buyer in Boston, U.S.A. would get a Consular Invoice "Visé" by the U.S. Consul at Liverpool. The stamp has to be paid for by the seller, unless the buyer has, exceptionally, agreed to bear the expense.

Another type of invoice is that which is certified by the Chamber of Commerce in the exporter's (seller's) port, as a guarantee to the buyer that the goods have been examined before despatch by a responsible body.

There is much more that could be said about the invoice, but to say more would entail entering into the detail of certain trades, or trade with certain countries. A trader contemplating buying or selling abroad should approach the Consul of any country with which he intends to trade, or the Board of

Trade, or his Chamber of Commerce or his Bank. Experience shows that this remark is by no means uncalled for.

Examining the Documents. When a bundle of documents which represent an international trade transaction have been put together, they are (or should be) closely examined by the exporter with whom they originate, by other traders into whose hands they come, and by the banks who perform the financial services to which we shall later refer. Yet it is surprising how many discrepancies are discovered at the second or third hand. The points which should be checked by the seller, before he parts with his documents, are:

(1) That the invoice is properly made out, the buyer properly designated, the transaction properly referred to by contract or order number.

(2) If he is an F.O.B. seller, that any extra disbursements for insurance and freight, paid out at the buyer's request, have been claimed from the buyer.

(3) If he is a C.I.F. seller, that nothing has been added beyond the bare agreed price, unless some unusual service has been performed in connection with the shipment, when a separate invoice should be attached (e.g. payment of premium for War Risk).

(4) That the identifying mark placed on the packages allocated to this particular order is properly reproduced on the invoice, B/L and insurance policy, and that as between the documents there is no disagreement on this point.

(5) That all the documents refer to the specific shipment, and to nothing more or less. If ten tons of scrap-iron have been sold, a B/L is of no value if it covers fifteen tons, as the buyer will object to having a duty thrust on him of saying which ten tons are his, and which five belong elsewhere; similarly there are risks in connection with the insurance policy covering more or less than the quantity. Thus the documents must agree in regard to quantity and amount.

(6) That the documents show that he has shipped the goods of the quality and description called for by the original contract for sale.

(7) That the B/L and insurance policy are endorsed where necessary.

(8) That if the original contract calls for an "On Board" B/L, the actual B/L commences with the words "On Board" or "Shipped".

(9) That if it was originally agreed that shipment should be by a certain date then the B/L must show that the goods were "On Board" before that date, or if in a certain period, that the B/L says "On Board" or "Shipped" and is dated within that period.

(10) That any other documents called for by the contract, or usual in the trade, are also present and correct.

(11) That if the original contract calls for a specified quantity "exactly", that he has shipped that exact quantity: if "approximate" to a named

quantity, that any deviation from the named quantity by over- or under-shipment is within the limit of discretion allowed him by the use and custom of the trade, and that the deviation is permissible in trade with the actual country to which he is exporting. If a deviation is within a certain stated range, is provided for in the contract, for example an order for "100 tons, 10% more or less", the deviation must be within the given limit; he must not ship less than 90 tons or more than 110 tons.

Other points may occur to readers, those given here being points which have given rise to law suits, or which have come within the practical experience of the writer.

Further Duties of the Parties. We have seen how the seller puts together the invoice, B/L, and insurance policy. These three documents form the essential link, in international trade, between buyer and seller. They represent the goods in transit, so that it is the duty of the seller to get them, as soon as he can, into the hands of the buyer. The seller has performed his duty when he has shipped the goods, at the time or within the period arranged, on a ship bound for the buyer's port, and secured any necessary insurance, providing always that those goods correspond to the quality and quantity he agreed to dispatch.

The seller having brought into existence the necessary documents by carrying out his bargain, is now concerned with getting paid; this he does by

handing over the documents (i.e. *not* the goods) to the buyer. He sends the documents by mail to the buyer, who must now provide for payment; the buyer has no chance, in normal circumstances, to sample the goods, as the documents will be sent him by a mail steamer which will easily outpace the cargo boat. It may even be that the seller will send the documents by air mail, a practice which is on the increase. The buyer's duty is to pay against the documents. If he afterwards finds the goods are not what he ordered, his remedy is to sue the seller for breach of contract.

While the cargo is on the sea, it is in the care of the shipping company and is not accessible; the documents which now represent the goods are the only evidence the seller can, or need, produce to the buyer. The buyer provides for payment in the manner agreed in the original contract, even if he knows that the goods have been lost at sea or even if he has been informed of some damage to them which has already occurred. His duty is to pay against the documents, providing they are in order; then later he can call upon the shipping company or the insurance company according to the contracts of affreightment and insurance which have come into his hands along with the invoice.

Type of Ship

The C.I.F. contract may be silent on the point of the type of ship by which the goods are to be carried.

Three types may ply between seller's and buyer's ports—sailing ship, coal-burning steamship (usual abbreviation " S.S.") and oil-burning motor-vessel (usual abbreviation " M.V."). The duty of the seller is then to load the goods on a vessel of the type usual in the trade; though as between the steamship and motor vessel there is little usually to choose in point of speed, the sailing vessel takes so much longer that this type is only used in one or two trades, and even there to a decreasing extent. Thus it would be unfair (or, as the lawyers say, " inequitable ") if the seller sent the goods by a sailing vessel when the buyer had the right, according to trade usage, to expect transport by the faster means. Where from the start the seller intends to use the slower type in order to save on the freight, the fair thing to do is to tell the buyer so before the price is agreed upon.

Route

Where no particular mention is made of the route (e.g. from India, via the Red Sea or via the Cape) the seller must send by the usual route, by the route which his trade regards as the usual one. He may get the goods carried at less cost by some alternative route, but that is manifestly to the detriment of the buyer who is looking for the goods to arrive as usual, and may have re-sold on those terms, Moreover, the seller must get a reasonable B/L, not one which permits the ship to call at ports off the usual route.

Where the seller contemplates getting an unusual B/L, the fair thing is to get the buyer's agreement before he does so, and the most equitable course is to mention the point when offering goods to possible buyers, i.e. before any contract is entered into.

Insured Value

The insurance which the C.I.F. seller takes out must cover the value of the goods. It needs little thought to show that the value to the seller is the value at the place from which he ships. The value to the buyer is a very different matter because he is buying to sell again, and thus his profit and the freight might reasonably be included in any valuation; alternatively, he might base a value on what it would cost to replace the goods if they did not reach him. C.I.F. contracts usually call for insurance by the seller for the invoice value "plus 10%". That is the usual percentage, but sometimes others are called for. If no mention is made of additional insurance it is not unusual to cover the invoice amount, though actually the freight in case of non-delivery is reclaimed from the shipping company, not from the insurer. The ship has not completed the contract of affreightment, so the company cannot get payment for what they agreed to do but did not carry out.

Advice of Dispatch

The seller need not advise the buyer that he has sent the goods off. This may seem rather hard on

the buyer. if he wants to take out extra insurance cover against loss of profit, or war risk, or some other matter not covered by the policy usually tendered under C.I.F. contract. This, again, is a point on which the parties should agree before the order is given for a definite quantity of the goods which the seller offers. In practice, the point can be covered by arranging a cable code-word which the seller sends to the buyer on shipment ; this word is known only to them, and costs at most a shilling or two even if sent from the ends of the earth. If the seller insists on such a trivial point, he can recover the cost from the buyer.

Stipulated Insurer

Unfortunately, the buyer cannot insist on an English policy of insurance unless he stipulated for it in the contract for purchase of the goods ; he can only demand a valid policy of such a kind as a reasonable buyer would not refuse. Had the buyer said from the start that he would only take the goods on condition that the seller agreed to take out the policy with Lloyds underwriters, then he would, of course, be entitled to get such a contract of insurance.

Frontier Duties

Goods sent out of a country may be liable for export duty ; this the seller is bound to pay. On the other hand, he claims the benefit of any " Drawback " ; where his goods consist, in whole or in part,

of some prior import on which an import duty had been paid, he may have the right to reclaim that duty from his own Customs and Excise Department. If, when the goods arrive, an import duty is payable, the buyer must pay that duty before he gets possession of the goods; they may be put into a bonded warehouse, he may even go and see them, take samples in order to re-sell, blend or sort them, or otherwise put his hand on them and say " These are mine ", but he cannot take them away until he has paid the duty. All this is no concern of the seller, who completed his part of the bargain when he sent off the documents.

Special Types of Contract

Should the seller wish to convey to the buyer the right to handle the goods before he pays, that is a very different thing from payment against documents under a C.I.F. or F.O.B. contract; such a contract is not the proper one to enter into in that case, and any attempt to allow the buyer the possession of the goods as the condition of arranging for payment should be put into the " Ex-ship " or " Ex-warehouse " form. Contracts in this form are not nearly so common internationally as the C.I.F. one, and should be the subject of a special agreement between the parties in which all the points are enumerated.

There is a large group of types of contract in use, particularly in the U.S.A., such as " Ex-grain-

elevator ", " Ex-wharf ", " Ex-dock ", " Ex-pier ", " Ex-store " and so on, all signifying that the buyer gets the actual goods when he pays for them, or else a receipt in some form which he can surrender immediately so as to get his goods if he so desires. In all these cases the goods are at destination as far as the seller is concerned, he having put them in a certain agreed spot where the buyer takes over and pays the subsequent expense of storage and insurance. These terms are largely a matter of domestic, not international, trade in goods, but in order to get the merchandise into that form if coming overseas, the parties will find their trade facilitated by using an insurance contract with the " Warehouse-to-Warehouse " clause. The seller of goods exported with a view to payment by a foreign buyer on delivery of the goods should take out such an insurance contract and also cover War risk, keep the policy in his own hands, arrange for the goods to be both conveyed and delivered into the storage place, and the buyer notified; if " Ex-ship " he will have to pay all charges up to the time the buyer takes delivery from the ship's tackle, but he should see to it that the buyer is notified of the arrival of the ship and is not allowed to keep the vessel beyond the usual unloading time.

CHAPTER IV

TENDER AND PAYMENT

The seller who has collected together a bundle of documents representing his sale of goods proceeds to hand them to the buyer and to secure payment ; this he can do in a number of different ways.

DEBTOR'S REMITTANCE

In the simplest case he sends the documents direct to the buyer with a covering letter asking for the invoice value to be remitted to him. If there is no arrangement between them for a credit period, by which the buyer is allowed a certain delay before he pays, then the buyer must immediately send the invoice amount. This is referred to as " Sight " payment, i.e. immediately the buyer has " sight " of the documents he becomes a debtor for the invoice amount. He must discharge his indebtedness by sending what he owes, and payment in this form is called a " Debtor's Remittance ". After the documents arrive, and until payment is made, the accounts between the parties are reflected by ledger entries in their books. The seller has assumed the role of creditor, the buyer that of debtor.

The debtor's duty is now to send his remittance

for the credit of his account in the creditor's books; there is no reason why he should not send banknotes or coin, or even gold (except where exchange restrictions operate—see Chapter IX), but in practice this would be an exceptional course owing to the expenses of shipment and insurance of the valuables. He may have sums due to him by his debtors in the creditor's country which he can arrange to have put to his credit with that party, or there may be some reciprocal dealings between him and the creditor so that only a balance is payable when these particular documents arrive. Under the last-named circumstances, which arise, for example, when the sale is C.I.F., and the debtor has insured on behalf of the creditor, a statement of account is rendered by the creditor showing the contra-entries and the balance due.

Bill or Draft

The debtor may remit by buying up bills of exchange (see below) on the creditor's country arising from his country's exports, and sending those; this involves finding a bill of the exact amount which he has to pay, or a number of bills totalling that sum, either of which it is most improbable he will be able to do. His best course is to go to his bank who will issue him their own draft on their correspondent in the creditor's town for the amount of the debt. There are, however, two alternatives to this course, as follows:

1. Telegraphic Transfer

Where the parties are in a hurry to settle the account, the debtor will arrange for his bank to cable the money to the creditor or to the creditor's bank. This the bank are able to do by sending their correspondent in the creditor's centre a coded message by cable or wireless, authenticated by a secret cypher known only to themselves and that correspondent, ordering the payment of the amount of the debt to the named creditor, or to that creditor's bank for payment into his banking account. This method is called, for short, " T/T ".

2. Mail Transfer, or " M/T "

Should the parties not wish to incur the expense of cabling the money, the debtor's bank will be pleased to send a " Mail Transfer ", or " Mail Payment " order, if necessary by air mail. This they do by sending a letter to their correspondent, the authentication being the signature of authorised official or officials, instructing the correspondent to pay the creditor the amount of the debt either direct or through his bank.

Advantages of Mail Transfer

The mail payment order is in such common use that banks complete them (except for the signature) by means of folded forms in a machine like a typewriter. The form is a composite affair so folded that the bank's own entries and records are made out

simultaneously with the letter ordering the disbursement. The great advantages obtained by this method over that of the remittance by the debtor of a banker's draft are:

1. There is no risk of the loss of the draft by which it can get into wrong hands; a mail payment letter is of no value to the thief, but a draft which gets into wrong hands might be paid.

2. The bank get the creditor's receipt for the payment to him, so that he cannot afterwards say he did not receive the money. If the debtor wishes them to do so, the bank will, without extra charge, get the creditor's receipt on the actual statement or invoice rendered by him to the debtor; in order that this may be done the debtor should hand the statement to his bank when he orders the payment.

Whose Money?

The original order for goods, the offer of them, and the eventual contract for purchase and sale may mention the price in one of three forms:

1. The money of the buyer's country;
2. The money of the seller's country;
3. The money of some third country.

When the buyer has received the documents he must pay in the money stipulated. If that is his own money, the bank sell him a draft, cable transfer, or mail transfer in that money and charge a small commission for their services. The commission varies according to the bank's own expenses in the

matter (which largely depend on the country in which payment is to be made) but a charge would be unusual that exceeded a shilling or two per £100, or part of £100.

Should the payment be in some other currency, the bank quote a rate of exchange (see Foreign Exchange, Chapter 8). They tell the debtor how much of his own money he has to pay them in order to buy the payment of the amount he owes in foreign money ; then he pays that much in his own currency in cash, or gives a cheque, or asks his bank to charge the amount to his banking account with them. There is no commission for this service unless the transaction is for a trifling amount, all expenses being allowed for in the rate of exchange. On large amounts cabled (say exchange for £1,000 or more) even the expenses of cabling can be included in the rate.

Credit Period

It has been assumed so far that the debtor's remittance was due immediately he received the documents. In many contracts for sale of goods it is agreed, on the contrary, that a credit period is to be allowed ; it might even be that the debtor had to pay the contract price during a certain period, or at a certain time, but would be allowed rebate if he paid before that period expired, or that time arrived. A credit period is possibly more common than a sight payment. When a period of so many days or

months is allowed, it commences to run from the arrival of the documents, not from the arrival of the goods, unless specifically agreed to the contrary. At any time until the last date fixed in the contract the debtor can make his financial arrangements: it may be that he will have sold the goods and received payment for them without laying out a penny of his own capital, but any balance sheet or statement of his affairs compiled in the meantime will show, of course, that he owes the money.

CREDITOR'S DRAWING

Either of the two courses in which the "Debtors Remittance" is the method of payment—that is, whether payment is at sight, or at a future time—involves an element of credit given the debtor by the creditor. The period from the time the goods were shipped until eventual payment is one in which the original seller (now the creditor) is trusting his money (or rather, money's worth in goods) to the buyer (now the debtor). It may be that he would rather not do this, but would prefer a method by which the buyer is only given the documents of title to the goods when he had provided for payment. Such a method is the "Drawing by the creditor", who then draws a Bill of Exchange for the invoice or statement total.

The Bill of Exchange is defined in Section 3 of the Bills of Exchange Act, 1882, as "an unconditional order in writing, addressed by one person to another,

signed by the person giving it, requiring the person to whom it is addressed to pay on demand or at a fixed or determinable future time, a sum certain in money to or to the order of a specified person or to bearer". Such bills may be drawn for purposes other than those of trade, but the remarks which follow here are confined to trade bills.

The creditor draws the bill; he is the "one person" in the above definition and is called the "Drawer". He addresses it to "another", who is the debtor and is called the "Drawee" of the bill. The amount of the debt for which it is drawn is expressed in words and figures. This must be a "Sum certain", though it may include interest or show how the rate of exchange is to be determined; between two parties in different countries, one or other must necessarily be concerned in the exchange of their two different moneys the one for the other.

Specimen 1

SIGHT BILL OF EXCHANGE

London, 19th June, 19....

£500

On demand, please pay Collecting Bank, Ltd., or Order, the sum of Five hundred pounds, drawn against Invoice No. V. 4325.

Stamp (Signed) A. N. Exporter

To Importers, Inc.
New York, U.S.A.

Specimen 2

"90 *d/s*" *BILL OF EXCHANGE*

London, 7th July, 19....

£1,000

Ninety days after sight of this FIRST of exchange (Second and Third of same date and tenor being unpaid) pay to my order the sum of One thousand pounds. Shipping documents attached, to be surrendered against acceptance.

Stamp (Signed) A. N. Exporter

To J. B. Lefebvre et Cie.,
Importateurs,
Le Havre.

SCHEDULE OF BRITISH STAMPS

Bill of Exchange payable (1) On Demand or (2) At Sight or (3) On Presentation or (4) Within 3 days after date or sight	2d.

whatever the sum payable.

Bill of Exchange of any other kind, i.e. more than 3 days after date or sight:

Amount of Bill	*Stamp*
Not exceeding £10	2d.
Exceeding £10 but „ „ £25	3d.
„ £25 „ „ „ £50	6d.
„ £50 „ „ „ £75	9d.
„ £75 „ „ „ £100	1/-
Every additional £100 or part thereof	1/-

Example:

Stamp on bill £100 0s. 1d. - - - - - - - 2/-

Where a bill is drawn on a British drawee in foreign currency it is stamped as if drawn for the equivalent sterling value at the rate of exchange on the date of the bill.

In regard to the time at which bills are payable there is sometimes confusion in the minds of commercial men. The drawee must pay or refuse at once if the bill is " On demand ", or if the bill is drawn payable at some time after date or after sight he must at once signify his willingness to pay at that future time, or refuse to do so. If he agrees to the bill he " accepts " it by writing his name across its face ; he may possibly add the word " Accepted " and if the bill is drawn so many days after sight he inserts the date on which he accepts (i.e. " sights ") in order to fix the due date on which he will have to pay.

The words " At once " in the foregoing paragraph must not be read too literally, for the drawee expects to be given time to examine the documents. Normal practice is to allow him 24 hours to do this. The law governing the point where a bill is presented in this country is given in the Bills of Exchange Act, Section 42.

It is not possible to draw a valid bill " On arrival of the s.s. . . .", and thus allow the debtor to get the goods before he provides for payment, because that is not a " fixed or determinable future time ". If traders want the goods to pass when the bill is presented (not under C.I.F. contract, of course), the bill should be drawn payable " On Demand " (or " At Sight ") or some agreed period " After Sight " or " After Date " and then handed to a bank by the drawer with instructions to present on arrival of the ship carrying the goods.

Having stamped (see schedule on page 57), dated and signed his bill of exchange, the drawer hands it to his bank for collection ; he either makes it payable to his bank, or makes it payable to himself as " Payee " and endorses on the back. His bank then place their own endorsement on the bill under the words " Pay to the order of . . ." inserting in the gap the name of their correspondent in the drawee's town.

The bill will probably be " Drawn in a Set ", which is to say a " First of Exchange ", referring to the second and third as in my example No. 2, and second and third each referring to the other two : only one need be stamped. Then the documentary bill is not sent forward altogether by one mail, for the first of exchange can be attached to one part of the bill of lading, the invoice and original insurance policy, and sent by the first out-going mail, and the other parts of the bill of lading with duplicate invoice and insurance policy by a subsequent mail or alternative route attached to the second of exchange.

Documentary Bills ; Performance Completed

When a bill has been drawn by a trade creditor he attaches to it the documents of title to the goods ; the documentary bill so created provides a convenient method of performing the C.I.F. contract. The seller has done what he was bound to do under the contract when he shipped the goods and got the proper documents together ; he now draws his bill of

exchange on the buyer, and attaches the documents. When the bill is presented to the buyer he can pay it and get possession of the documents, thus performing his side of the contract. The exception is where the C.I.F. contract called for a period of credit to be allowed, when the buyer accepts a bill payable at some later date, thus agreeing to pay the amount on that date. Here it is a question for the parties to decide if the buyer can have the documents when he accepts, or whether he must wait until he pays. The arrangement may be " Documents on payment ", notwithstanding prior acceptance, so that the seller is not trusting the buyer very far ; in this case it is usual for the buyer to be allowed to inspect and sample the goods so that he can re-sell. If he is in a position to pay before the bill is due, the collecting bank allow him a " Rebate " for the period from the day he pays to the date originally fixed for payment : they accept a prior payment, and allow him interest on his money for the time during which they have the use of it, as explained in Chapter VI. Bills which are to be surrendered only on payment are known as " D/P " bills (Documents against Payment). Those which the drawer wishes to be surrendered to the drawee on his acceptance are called " D/A " (Documents on Acceptance). The drawer may put on the bill itself the initials " D/P " or " D/A ", but his bank will ask him nevertheless to sign a Lodgment Form (specimen on opposite page).

FORM Fn. Bch. 74 Stg. Lodgment: Documentary Bill.

To THE EXPORTERS BANK LTD.

I/We hand you herewith the undermentioned bill and relative documents as specified, for collection for the credit of my/our......................Account. I/We authorise you to

(i) Remit first of exchange with one part B/L, and one each original documents by next convenient mail, others by subsequent mail

(ii) Employ the services of your correspondent ....at .... All risks in connection with the acceptance, collection and reimbursement will be borne by me/us.

(iii) Charge my/our above account with all expenses incurred, and your commission at the rate of...... ...., except in so far as these are collected from the drawee.

(iv) Apply the terms of your general letter of hypothecation signed by me/us to the bill and documents.

Particulars regarding the Bill of Exchange:

Reference Number	If accompanied by Second and Third of Exchange	DRAWEE		Usance	Amount
		Name	Address		
					£

Specification of Documents:

B/Lading	Insurance	Invoice	Consular Invoice	Other Documents

Instructions:

Remittance: Remit by AIR/SEA mail.

Presentation and Advice:
- Present on arrival of MAIL/GOODS.
- If unaccepted / unpaid: Protest / Do not protest / Advise in case of need....................
- Advise payment / non-payment by: cable / air mail / sea mail

Clauses:
- Payable at collecting banks selling rate for / Payable by approved bank's: Telegraphic Transfer / Sight draft on London / 90 d/s draft on London
- Payable with: exchange / stamps / bankers' charges / interest at ....% from date of draft until approximate date of arrival of remittance in London.

Documents:
- To be surrendered on acceptance / payment
- If on payment state if rebate is allowed; if so: period .... / rate ....

Other Instructions:

Signature..................................

Use of Bill Lodgment Form

The use of the Documentary Bill Lodgment Form sometimes brings home to exporters the fact that some part of the expenses which will be incurred are not provided for in the original contract for sale of goods. Occasionally the form causes some concern ; it is designed to cover all the possible alternative cases, and exporters may find some form of contract referred to by implication with which they are quite unfamiliar. Some trades have peculiar customs, and, in the case of particular countries, contracts between the buyer abroad and the seller at home may bring in some point which does not usually arise.

The bank form illustrated here is intended for use where the bill is made out in " Pounds ". Actually, for convenience, the bank have given this form their reference number, and added " STG " which is short for " Sterling ", in order to distinguish it from a slightly different form which is used when bills drawn in foreign currency are handed to them for collection. This form, then, is used when the bill is in British (Sterling), South African, Australian or Egyptian pounds. It is addressed to the bank by the customer, who signs it in the bottom right-hand corner ; he is, normally, the trade creditor who has exported goods and has drawn the bill on the debtor (the foreign buyer, now the drawee of the bill).

Mandate Derived

The instructions contained in the form give the bank authority to act as the customer's collecting agent. The first paragraph calls for nothing but common sense in completing it by the deletion of "I" or "We" according to whether the customer is a person, or a partnership or limited company who naturally use the plural form of the pronoun. A customer who has more than one account with the bank, indicates in the space provided which account is to be credited with the eventual proceeds.

The Bank Forward the Documents

The clause marked (i) shows that the bank follow usual commercial practice in not remitting all the documents of title to goods by one mail. This practice has been referred to already. If the customer wants some departure from normal usage to be made, he can do so in "Other instructions" at the foot of the form. This does arise in practice where the original and duplicate Consular Invoice have both to be presented as soon as possible to the customs authorities in the buyer's port (e.g. goods going to Turkey).

Foreign Agent

In clause (ii) the bank insert the name of their own branch (if any) or their correspondent at the drawee's centre, to whom they are sending the bill. If the customer wishes to have the collection made through

a particular bank in the drawee's centre, possibly the drawee's bank, attention should be drawn to the point when the form is handed in. Otherwise the bank use their usual correspondent, and it is intended that the customer shall bear the credit risk; if the correspondent fails, that is part of the risk undertaken by the customer from which his banker stands aloof (if he can) as being merely an agent or intermediary acting on the customer's behalf.

Incidence of Expenses

Some or all of the charges, bill stamps, commission and other expenses may have to be borne by the debtor under his contract to purchase the goods. When these are claimed from him, he may refuse to pay them because he reads the contract differently from the creditor. Should this occur, or should he be unable or unwilling to meet the bill of exchange, the bank take authority in the third clause to charge up all expenses incurred to their customer, the drawer.

The Bank's Interest in the Bill

Clause (iv) is inserted in case the bank have some interest in the bill beyond that of mere collecting agent. They may have made an advance to the customer against all his bills in course of collection, or they may have given discounting facilities against some prior bills and have a general charge against all the customer's bills. In these and the

other cases referred to in Chapter V, they get the customer's signature to a General Letter of Hypothecation, the document mentioned in the clause at present under review.

Details and Dates

The customer proceeds to insert in the spaces provided the details of his bill and the documents attached to it. If he often collects sums due to him by drawing bills, he gives each one a reference number in his own Bills Receivable book, which number he puts on the bill itself and on the bank's form. He also uses the number as a reference consistently throughout his own books of account. If the bill is not drawn "In a Set" he draws a "Sola" of Exchange, and inserts "No" or "Sola" in the second space; but if he has also drawn a Second of Exchange or Second and Third, he inserts the appropriate remark. The fourth space is for the Usance of the bill, the period for which it is drawn. This may be "At Sight" or at some period (e.g. 90 days) after sight, when he inserts "St." or "90 d/s" as the case may be. If the bill is drawn at some period After Date, e.g. where the buyer of the goods F.O.B. is required by his contract to pay at some agreed period from the day the goods are sent off to him, then the customer should insert the date of the bill as well as the Usance, e.g. 3 mths/date: dated 30.6.19.... The date of the bill of exchange should be the same as that on the bill of lading in this case.

Reference to Documents

As stated in Chapter III in regard to the Bill of Lading, this document is referred to by the number of parts handed over and the number in the complete set. If the bank have any interest in the transaction beyond that of collecting agent they see that they get the full set. The first space in the Specification of Documents is filled in by inserting " 3/3 " or " 2/2 " etc., and the same method may be adopted in regard to the invoice (third space). If three invoices, original and two copies, were originally made out by the drawer and all are handed to the bank he can insert " 3/3 " under " Invoice ". Under " Insurance " is written, for example, " Policy No..... of the Exporters Insurance Co.", " Our Certificate No.....", thus giving the type of insurance document as well as the serial number, and usually also the name of the insurer. Should the insurance policy or certificate be handed to the bank in duplicate or triplicate a note of the fact is made. The form " 1/2 ", " 3/3 ", etc., may again be used, though not strictly correct.

The Consular Invoice and Other Documents are similarly recorded : these and their use are explained in Chapter III.

Eventualities

The Instructions which are printed in the bottom part of the form are so designed that the customer has merely to delete some of the words, and possibly

to insert " AND " where applicable, in order to convey complete instructions to the bank and thus to tell them what they are to do in certain eventualities.

Remittance

The " Remittance " refers to the manner in which the bill and documents are to be sent abroad. The provisions of clause (i) at the head of the form should here be borne in mind, for if the customer asks for a relatively heavy bundle of documents to be sent by air mail he may find the expense involved rather large in proportion to the saving of time effected. He may be prepared to authorise the bank to send the documents by air as " Commercial Paper " (1/- per half-ounce to Buenos Aires, as against 4/- for letters) ; if that is so, he should amplify the first instruction.

Instructions to Foreign Agent

The foreign correspondent of the " Exporters Bank " will be given their instructions on the basis of the remaining directions. The drawer must see that the bill he draws calls for performance by the drawee of those duties (and payment of relative expenses) laid to his charge by the terms of the original contract, and nothing more, and that the instructions conveyed to the presenting bank accord with those terms. If a C.I.F. or F.O.B. contract gives rise to the bill, the drawee must pay or accept on arrival of the documents, so the drawer instructs the bank to

present on arrival of the mail carrying the bill and documents. On the other hand, if the contract were of the " Ex-Ship " type, the drawee will only pay on arrival of the goods, and it would be fruitless to present the bill before the ship bearing the goods had reached his port. In this case, the drawer must instruct the bank to " Present on arrival of goods " (deleting the word " MAIL ") and he is usually good enough to add " By s.s. . . ." (naming the vessel) in order to facilitate the bank's foreign correspondent.

Honour and Dishonour

Should payment be due at sight, the drawee's duty is to *pay* when the bill is presented. If a credit period has been arranged, e.g. 90 days after sight, then he must *accept* the bill when presented. The next instruction says what the foreign correspondent is to do if payment or acceptance is not made by the drawee : if he is to incur the expense of calling in a notary in order to protest the bill, which is the first step towards litigation, he should be told to do so (see Bills of Exchange Act, 1882, Section 51, for the British law in regard to Noting and Protest). In many foreign countries this is an expensive matter, not lightly to be entered into, particularly where the drawee has refused the bill on some point which can be easily rectified. It may be that one of the documents is not quite in order and he objects to taking them on those grounds. Or one of the documents which he has a right to expect may not be attached

to the bill, but may actually be on the way to him. If his refusal is for some reason such as these it is an obvious waste of money to start the legal machinery.

Avoiding Fruitless Expense

Another case in which it is undesirable for protest to be made is in a country where the legal process is uncertain, or even corrupt, in which case the drawer having taken a risk in the matter with his eyes open from the start, will hardly throw good money after bad. If the drawee in such a case wants to avoid the contract, legal expenses will not be fruitlessly incurred. The drawer will find an alternative buyer for the goods, cut his loss as best he can, and desist from selling goods to the defaulter.

The instructions which the drawer gives in connection with protest or non-protest sometimes take the form of a rubber stamp on the bill, which may merely consist of the initials " N/N " (i.e. " No Noting " or " Incur no Notarial charges "), or the words " Incur no expenses ". In the event of no express direction to the contrary the " No expenses " are assumed by the collecting bank to refer primarily to the legal steps of Noting and/or Protest, but in any case the bank will require precise instructions. They are always pleased to say if protest is advisable or not in specific countries, but they will not take a lodgment form which leaves the matter to their discretion.

Case of Need

Should the drawer have an agent or branch house in the drawee's centre, they will insert the name of that agent or branch as " Case of need ". If now the bill is refused the matter can be referred to the agent or branch, and they with their knowledge of local conditions will know what is best to be done in the drawer's interests. It can be left to them whether the bill is to be protested or not, and whether or not a cable advice need be sent for the drawer's information. But if the name of a Case of Need is inserted, the bank will want to know the exact extent of his powers by a definition either after his name or by extension into the " Other instructions " at the foot of the form. It is important that the bank should know if the Case of Need may authorise that the drawee be given time in which to pay, and if access to the goods is one of his rights as the drawer's representative on the spot.

Advices

The foreign correspondent will not cable advice of non-payment or non-acceptance on his own responsibility, he must be told what he is to do. The same applies to the manner in which the advice is to be sent if payment or acceptance is duly made (next direction).

Return Remittance

By the first " Clauses " instruction the drawer

will also indicate how the money received by the foreign correspondent is to be sent home. This " Return Remittance " must be in the form contemplated by the original contract; the drawee will object if he is called upon unexpectedly to pay for an expensive cable, and he would have to pay more of his own money to meet a bill for a stated sum than if proceeds were by mail. This he will not do unless he is bound by his contract. The drawer may be prepared to meet him half-way by paying the cable charge, in which case he should tell his bank so when handing them the bill.

Exchange Clauses

Should the drawer have a right to expect the drawee to pay more than it would cost to buy a banker's draft or mail transfer on London, the bill of exchange itself should contain in the wording on the case a " Clause ". The use of " Clauses " is recognised by the Bills of Exchange Act. Various types of clauses are used in trade with different centres; the principal ones are as follows:

South America: it was at one time common for the return remittance to be by banker's 90 d/s draft, particularly in the case of Brazil. After a period in which the practice appeared to be falling into disuse it is now being revived. Unless he has specifically agreed to make a sight or cable payment, the Brazilian drawee might expect to pay less of his own money in the purchase of the 90 d/s draft, and if

there is to be no doubt of the drawer's intention he must clause his bill " Payable by return remittance at sight " or " . . . 90 days sight " as the case may be. He usually introduces the words " by approved banker's draft ", as otherwise the drawee could send a trade bill. It is worthy of emphasis that the return remittance is not sent to the exporter's bank until the expiry of the original credit period ; in the case of an original credit of 90 days, the drawer who is paid by a return bill at 90 d/s has to wait for his money 180 days plus twice the time taken by the mail (once out and once home).

Australia, New Zealand, etc.: unless arranged to the contrary, British exporters to Australasia expect to receive the full amounts of their invoices. In order to do this they draw bills which bear, as part of the wording, the clause " Payable with exchange, stamps and all charges for collection ", or some slight variant of that phrase. A bill thus drawn makes it clear that the drawer expects, from the contract or usual course of trade, to receive the net amount of the invoice for which he draws his bill. The price was quoted in British Pounds (Sterling) notwithstanding the fact that Australians and New Zealanders use a currency called " Pounds ". The difference in exchange between the two " Pounds ", Colonial bill-stamp (British bill-stamp is already on, of course) and the charges made by the exporter's bank and their Colonial agent, are all collected from the drawee.

A bill drawn in Colonial pounds is comparatively rare : when such a bill is drawn it may possibly call for payment by the drawee of collecting charges and/or Colonial stamp, though this again is not likely. The use of all " Clauses " is normally confined to bills drawn in Pounds Sterling. (See Chapter V for the clauses used in trade with Australasia when the bill is negotiated.)

South Africa: in arranging to export goods to South Africa, the seller expects to make no exchange loss unless his contract expressly stipulates the contrary. In order to ensure that any loss or profit on the payment in South African Pounds of a Sterling bill shall fall to the drawee, the bill should be claused " Payable at collecting bank's selling rate for sight drafts on London ". The Colonial correspondent of the exporter's bank arranges the exchange with the drawee so that the face (sterling) amount is remitted home, though the stamp charge in South Africa and the bank's collecting commission are borne by the drawer.

An alternative wording to this clause uses the word " Drawing " in place of " Selling ", which amounts to the same thing. The alternative envisages the return remittance by a banker's draft *drawn* by the collecting bank, but as this is *sold* to the original drawee, whether a draft or mail payment is actually sent, the difference is merely one of terminology.

Bills on India, the Far East, and East Africa: an " In-

terest Clause " is often used, particularly where the drawee is a native importer. The drawer receives in payment not only the amount of the bill of exchange, but also interest from the date of it until the proceeds arrive. There are a number of variations by which the drawee is required to remit home by cable or may avoid or pay stamps and charges, but the commonest clause is worded " Payable at collecting bank's selling rate for sight drafts on London with interest at . . . % per annum from date hereof until approximate date of arrival of remittance in London ". Instead of " Collecting Bank " the name of a specific bank may be stated. That bank, who act for the exporter or as the foreign agent of the exporter's bank, insert the rate of interest in the gap : the rate applied is the loan rate in the Eastern or other centre concerned. Unless the collecting bank's lodgment form otherwise instructs, the local charges are also collected from the drawee, but the exporter's bank charge the drawer with their commission.

General Clauses. There are many clauses which vary in some slight detail from the types commented upon in the foregoing paragraphs. There are yet others which fall into classes according to their purpose, the most important being of the kind which states who is to fix the exchange. One such clause is " Payable at collecting bank's selling rate for sight drafts on London ", and even if no such clause occurs in the wording of a sterling bill, the probability is that the drawer will authorise his bank in the

bill lodgment to collect in that manner. On many occasions the arrangement works perfectly, the drawee agreeing to the conversion by the collecting bank because the rate they apply is strictly competitive ; he gets as good a rate from them as he could get from any other bank in his centre, and is thus satisfied.

Misunderstanding can arise on the point of who is to fix the exchange, however, if no agreement exists on the point between drawer and drawee. The drawee knows that he has a certain debt to meet, and he knows that he will have to pay on or about a certain date ; he knows he will have to pay a certain sum in foreign money on that date, and in the interim he can go to his bankers and arrange the exchange on a " forward " basis (see Chapter VIII for explanation). The exchange is then fixed by *his* bankers, thus neither by those of the drawer nor by the foreign correspondent of the drawer's bank. When the time comes to meet the sterling bill the drawee will expect to pay by a draft on London in pounds sterling issued by his banker. The clause which should be put on a bill payable by the tender of a draft by the drawee's bank is the one which says " Payable by approved bankers draft on London ".

The way out of the difficulty thus arising is for buyers and sellers to arrange this detail when they agree on the price of the goods : what is more, the bill arising out of the contract (by which eventual performance is provided for) should use the ex-

change clause to which the terms implicitly give rise, and no other. When the bill of exchange is lodged with a bank the instructions given in the lodgment form must agree with both the clauses in the bill and the terms of the contract. It may be that the bill form used by the drawer will not leave room for the insertion of a clause; in that case the clause is often omitted. Where the omitted clause should have been of the "Collecting bank's selling rate" or the "Approved draft" type, instructions can be given to the collecting bank by deletion of the unnecessary words on the lodgment form, and the omission of the clause from the bill itself is not a vital matter. The use of the form ensures the collection of the bill according to the intention of the parties, and that is the material point.

How far is Drawee Trusted?

Reverting to the specimen bill lodgment form, the next instruction refers to the documents of title attached to the bill of exchange. This direction involves a most important matter, which is the extent of the drawer's trust in the drawee. If the bill is at sight, the documents are handed over when the drawee pays and no faith in the drawee is called for, but if the bill is payable at some period after date or after sight, the bank must be instructed whether the drawee is to be allowed to have the documents when he merely accepts by writing his name across the face of the bill, or whether those documents are to be

withheld from him until he pays. If the instruction to the bank is " D/P ", documents on payment, the drawee may be entitled to rebate if he takes up the bill before it is due. This right may be mentioned in the original contract, and that document might even fix the rate of rebate to which he had a right. The completion of the form must accord with the contract, a point which the drawer has to bear in mind.

Other Directions

The space for " Other instructions " may not be necessary in some cases, but in practice it often proves very useful. However comprehensive the exporter's bank make their printed form, some unusual type of contract, some unusual event, or some foreign law, may render additional directions vital.

Protection of Exporter's Interests on Dishonour

The commonest use of the " Other instructions " space is to instruct the bank what is to be done with the goods if the drawee refuses to pay. The drawer does not want his goods dumped on a quay in some distant port and there left to rot. He tells his bank to arrange for their correspondent at the drawee's port to take up the goods in case the bill is not paid, to warehouse them and insure them against fire, pilferage and other risks and to pay the expenses involved. In the meantime the advice of non-payment will have reached him in accordance with his instructions given earlier in the form, and he can

arrange to dispose of the goods to another buyer. Then later he can consider what form his claim against the defaulting buyer should take under the contract and whether that buyer is of sufficient substance to be worth sueing in the courts.

Unusual Procedure

A second possible use of the space for additional instructions is where the laws of the country of import (the buyer's country) call for some unusual procedure. It may be essential for the buyer to produce the documents to his fiscal authorities before he is allowed to buy pounds in order to meet the bill (as in the Argentine—see Exchange Restrictions in Chapter IX). This involves trusting the buyer with the documents before he pays, a point on which the collecting bank require very definite instructions.

Buyer's Access to the Goods

The arrangement with the drawee, particularly where the goods are being sold by him as agent of the drawer (where the goods are " On consignment "), may involve giving him access to the goods in order to dispose of them. He may be authorised to sell the consignment in lots, in which case the bank require instructions on the point; they are entitled to ask " Is the drawee to sign a Trust Receipt ? " (q.v. in Chapter VI), and " Is the drawee to pay the whole amount of the bill when he has sold all the goods, or must he pay our correspondent pro-rata for each lot

as he sells it ?" This and other less usual contracts for sale of goods give rise to varying additional directions in the last space on the form.

Sterling or Currency

The form which we have considered is intended for use when the bill is drawn in sterling. The bill should be drawn in the money in which the original price was quoted, a point which might seem trifling but which is really of the greatest importance. Debtors who owe money, and creditors who are owed, often ask their bankers to quote a rate for conversion when no such exchange is incumbent upon them. If there is a reasonable doubt, the foreign exchange departments of the banks are always ready and willing to help, but the safe course is for the debtor to remit or for the creditor to draw in the currency in which the price is quoted and in which the invoice is made out.

Foreign Currency Bill Lodgment

Where a bill is drawn in foreign currency the lodgment form used differs only in detail from the "Stg" one, of which an example is given here. Some of the banks use a common form for bills in both home and foreign currencies. The main point of difference where distinct forms are employed is that the foreign currency bill lodgment gives more precise instructions in regard to the manner in which proceeds are to be sent back when the bill is

paid. In the case of a sterling bill, the manner in which the return remittance is to be made is provided for in the clause on the bill, whether payable by "T/T", draft or otherwise. The bill drawn in foreign currency demands of the drawee a sum in his own money. If he pays that he has done with the transaction, and any expenses involved in cabling or sending advice of payment by air mail are at the charge of the drawer, and will only be undertaken by the collecting bank if the drawer so instructs them in his lodgment form. To this general statement one exception may be noted: for if the drawer who has not asked for "Cabled advice" is getting anxious to know if the bill has been paid at some time after it should have been met, his bank will always be pleased to put through an enquiry, at his expense, by cable or the faster air mail.

Avoiding Bank Intervention

There are two ways in which the exporter may avoid passing a bill through a bank for collection. In the first of these he draws a bill at some period after date or sight under a contract allowing the debtor a credit period. This bill he sends direct to the drawee, with the documents, thus trusting the drawee to accept the bill and return it to him. In the second case he does not draw a bill at all, but hands the documents to his bank, with instructions that those documents are to be handed over to the debtor on payment of the invoice amount. This course is

only followed where the contract calls for sight payment.

In either case the value of having an " Instrument " of credit, a bill of exchange, is lost. In the first case the drawee may delay the return of the bill in order to gain time, without giving the drawer the opportunity to prove that this has been done, and the *extreme* risk is that the drawee may keep the documents (and thus get the goods) yet never return the bill with his acceptance on it. Had this bill been put through a bank with " D/A " instructions the drawee would have had to accept the bill before getting the documents, and the drawer would have obtained an instrument on which he could sue without reference to the contract for sale of goods. If he lets the debtor have the documents without acceptance of a bill as a condition precedent, he must prove on the debt for the goods by producing all the evidence.

In regard to the second case, there is little object in getting the bank to collect payment against documents, without drawing. The saving amounts to a twopenny revenue stamp and the cost of the bill form.

CHAPTER V

FINANCE FOR THE EXPORTER

THE exporter who has sold to a buyer abroad on certain terms embodied in a contract, and who then sends off the documents to his buyer and awaits a remittance, may have to wait a considerable time for his money. Should the debtor's remittance be due by ordinary mail, then he must wait at least twice the mail period, even if the debtor is prompt in his payment. An arrangement may be made by which the exporter sends the documents direct, but instead of awaiting the debtor's pleasure he draws a bill on him. Such a bill is not a " Documentary Bill " ; it has no documents attached to it and is thus called " Clean ". By following this course the exporter may save something in collecting commission, as his bank charge more where they have the trouble of handling the documents. The bank might charge $\frac{1}{4}$% (5/- per £100) for collecting a documentary bill, but only half that fee ($\frac{1}{8}$% or 2/6 per £100) on a clean one, with a certain minimum for small bills in either case.

A Banking Function Justified

Whether the debtor remits or is drawn upon by

either kind of bill, the exporter has to wait for a remittance or a letter of advice to come back from the drawee's centre before he gets his money. He loses the use of part of his floating capital, which is so vital to his business, since he could turn it over to good advantage in further trade. In order to assist here the banks perform a function vital to modern commerce: they finance exporters by lending money against the security of bills or by buying those bills. There is the important reservation to be made on behalf of the banks, that they will only do this if the exporter is a sound party. If they know him to be financially sound, of reasonable standing and integrity, and if he is employing a sufficient sum of his own money in his business to justify their action, they will accommodate him according to his requirements. It is not reasonable to expect the banks to risk their depositors' funds if they are uncertain on any of the points mentioned, or if they have a reasonable suspicion that the exporter is overtrading. The limit of accommodation granted to any particular exporter depends on the normal turnover in his trade during his seasonal or general activity and on the size of his particular business. Should the exporter be a partnership or limited company the same observations apply, though in the last case the application for facilities is more commonly accompanied by balance sheets and other evidence from which general standing can be judged.

Methods

The consideration of the methods by which the finance of exporters' bills is arranged falls naturally into four divisions. Differences arise from the quotation of prices of exports in different currencies, from the peculiar customs of trade with certain countries, and from the varying needs of different exporters. The bank may be called upon to give the exporter the full amount of the bill he offers, i.e. to buy it from him. The alternative course is for the bank to regard the bill and documents as their security for an advance of less than the full amount of the bills. My first and second divisions (below) are concerned with the " Discount " and " Negotiation " of bills respectively, in either of which cases the bank buy the bill; my third and fourth show how credit is given for part of the bill, by loan- or overdraft-advances and acceptance credit facilities respectively.

The bank will only enter into the business of discounting, negotiating or advancing against a bill if they are reasonably certain that financial difficulties in the drawee's country do not preclude the exchange operation which necessarily occurs. They must be certain not only that the drawee will be allowed to discharge his debt by payment in his own currency in some way, but also that the frontier will not provide an insuperable barrier to " getting the money out of the country ". This is known as the Transfer Risk, and is explained in greater detail in Chapter IX.

1. DISCOUNT OF STERLING BILLS

As we have seen, a sale of goods at a price quoted in sterling gives rise to a sterling bill. Should the seller approach the bank with a bill he has drawn in sterling on the buyer who has now become the drawee (the debtor for the goods), the bank is concerned with the standing of both the parties. The bank are asked to buy the bill, and they will only do so if they are reasonably certain that the drawee will pay it when it is presented to him for payment. They have means of finding out whether the credit risk of the drawee is a reasonable one for them to undertake (see Chapter VII on the Credit Factor). If the drawee refuses to pay, then they come back on their customer, the exporter, who undertakes by signing the bill as drawer that the bill will be met. They have " Recourse " to the drawer, to use the legal term.

Clean v. Documentary Bills

The bank may be prepared to discount clean bills; but if both drawee and drawer are unable to meet the bill, the bank are left with a bad debt for the amount of it and the expenses they incur, less anything they might recover in the bankruptcies of the two parties. As a consequence, banks prefer documentary bills where they also have the security of the goods exported. If they get the documents of title when they discount, they see that those documents are in such a form as to give them the property in the goods.

For this reason, the documents lodged with a discount are subjected to a closer scrutiny than if merely " For Collection ". The full set of B/L is required by the bank, and they will see that the B/L is endorsed in blank (i.e. endorsed by the exporter to whose order it is made out, or if merely " To Order " then endorsed by the consignor named in the B/L) : they will see that the insurance policy is made out to the exporter or consignor, and is endorsed in blank, and if a " Certificate " of insurance is given them instead, they require the relevant policy to be lodged with them until the bill is paid. They will be more particular to see that the freight is prepaid, and the B/L marked to that effect, if the goods concerned are subject to a high rate of freight in proportion to value. The matter may be summarised by saying that the bank will do all they can to perfect their security in the merchandise itself, and the experts employed in this part of the bank's activities make it their business to be well acquainted with the peculiarities of the trade in the goods concerned.

Direct and Secondary Contracts

The discount of a documentary bill on a foreign drawee is the subject of a contract between the bank and the customer. Not only is a Documentary Bill lodgment form completed by the customer, but also a Letter of Hypothecation as mentioned in Clause (iv) of the specimen lodgment form ; the matter is mentioned here in order to refer to the fact that the

bank who get this form signed have a general "Lien" (a general right to take as security) covering all the bills lodged by a particular customer in case the special one discounted should be unpaid.

Charges and Discounts

Whether the bill is discounted or collected the usual fee for the collection service is charged, but when the former course is taken, the customer is credited immediately with the present value of a debt payable at some time in the future. The exporter gets his money now instead of having to wait for the return remittance from abroad, and the payment he makes to the bank for the facility is quoted as a rate per cent. per annum. This "Discount" rate varies according to the grading of the drawer and drawee from the viewpoint of credit. In normal transactions between banker and customer it coincides with the loan and overdraft rate. The customer gets immediately the face amount of the bill (less collecting charges unless those are payable by drawee) less discount at the rate of, say, 4% per annum. Normally he can "Turn over his money" in his business to bring him in, it may be 10% or it may be 20%, the difference between this and the discount rate being of great importance to him in adding very largely to his profits. What it amounts to is that he is using the bank's money whilst the bill is in course.

Period of Discount

The period for which the discount is charged depends on the " Usance " at which the bill is drawn. If a bill is drawn at, say, 3 months date the bank know the exact date on which it is due for payment. They charge discount for the number of days from the day on which the deal is done until the return remittance is expected to reach them, having regard to the clause on the bill which shows whether that will be by cable or by mail.

A bill drawn payable at sight would be discounted similarly according to its clause ; if no clause is inserted the period is twice that usually taken by the mail, plus the time usually taken up by getting the bill presented. For example, a bill on New York usually takes 8 days on the outward mail to the collecting correspondent, is presented by him on the day the mail arrives, and the return remittance takes another 8 days, making 16 days in all as the usual period used in the discount calculation for New York bills. Had the bill been on Chicago, it would have been necessary to add twice the extra mail-time involved in going on there from New York.

A bill drawn, for example, payable at " 90 d/s " has to go out to the drawee's centre by mail and be " Sighted " by him before the 90 days commence to run. Then when he pays a return remittance is sent, so that the total period involved is 90 days plus twice the time taken by the mail. In the case of bills drawn payable in the United Kingdom 3 extra days

(known as " Days of Grace ") have also to be allowed for, but the practice is only common abroad in British Dominions, and this does not enter into the calculations when the bill is payable outside the U.K. or Dominions.

Effect of " Clauses "

In giving a customer the proceeds of a discounted bill, the bank naturally have reference to the clause with which it is enfaced. They will only charge him with foreign bill stamps, agents' charges and their own commission if it is not provided that the drawee must pay those expenses.

A clause is sometimes used of the " Exchange as per endorsement " type. The exact words used here may be inserted in the bill, or some slight variant may be employed. When a bill with this type of clause is negotiated the bank give the drawer the full face value of the bill without deduction of discount, only charging the drawer such of the expenses as are not laid upon the drawee by an additional phrase in the clause. The banks then recoup themselves for discount by converting the bill into the drawee's currency at a rate which allows for that item. Their rate of exchange is varied in such a way as to charge the drawee more of his money to discharge the debt than if the discount had been borne by the drawer. Such clauses should only be used if the original contract either specifically mentioned the point, or gave rise to it by implication, or if it is usual practice in

the trade and no mention of the point is made in the contract.

In the Australasian trade a particular clause is used very widely. It reads " Payable with exchange and stamps for negotiating bills on Australia (or New Zealand, etc.) as per endorsement ". The drawer gets the full face sterling amount of the bill; the rate at which the conversion into Australian or New Zealand pounds is effected by the negotiating bank in order to determine the amount payable by the drawee, allows for collecting commission and discount for the period for which the bill is drawn plus the appropriate mail period. The London offices of the Australasian banks publish a list of buying rates which show the exchange applicable to bills at sight or at 30, 60, 90 and 120 d/s. (" After date " bills are rare in this trade.) The rates vary according to whether the bill is remitted by air or sea mail.

Whenever a bill on Australia is tendered for " Negotiation " as it is called (which is virtually the same as discount), the published rate is applied. The bank endorse the bill on the back in these or similar words " Pay to the order of the Australian bank at the rate of £A . . . per £100 London ". They then write above the sterling amount on the face of the bill the sum in Australian pounds and add the value of the Australian bill stamp which will be payable on arrival there. The total is the sum payable by the drawee.

Unless an Australian importer arranges to the contrary, he expects to pay in this manner, that being the custom. It is very dangerous for drawers of bills to attempt to avoid discount charges by using this type of clause in any trade where that is not the customary procedure. The drawee may refuse to pay the bill on the grounds that he had not been led by the original contract to expect that the exporter's discount would be added to what he has to pay. The point may be summarised by saying that exporters to Australasia normally expect to get the full amount of their invoices and quote prices with that in mind. Any cost arising from a credit period falls upon the buyer of the goods, and he directs the seller to draw on him by a bill at the usance which suits his financial arrangements. In other trades the seller quotes a higher price because he will not get net cash for the amount of his invoice; he must bear the expense of collection and the cost of reducing to a present value the debt payable at a future time.

2. NEGOTIATION OF BILLS IN FOREIGN CURRENCY

We have seen that the bill on Australia or New Zealand starts off as a bill in Pounds Sterling, but before it leaves the country it becomes a bill in Colonial Pounds. The exporter who draws the bill is paid the present value of a debt payable in a currency other than sterling and the transaction is thus referred to as "Negotiation" and not a

" Discount " although the discount factor is equally present in both deals.

Bills *drawn* payable in currencies other than pounds are negotiated by banks in a fashion very similar to that employed with Australian instruments. The essential difference is that instead of starting with a known present value and calculating the amount in non-British currency eventually payable, the bank start with the known amount of foreign currency which will be eventually paid and calculate the present value in our money to be given the customer.

In order to do this, the present exchange rate on the centre concerned is taken as a basis. The bank base a calculation on the rate at which they would buy an instrument payable at once in the foreign centre, and adjust that rate by a margin which gives less immediate value in pounds. In this margin they allow for all the expenses of collection, foreign bill stamps and discount of the bill in the foreign centre at the rate of discount applicable to the type of bill involved.

The bank also, of course, take the precautions of checking the credit standing of the parties and perfecting their security in the documents in the way explained earlier in this chapter under " Bills Discounted ".

3. ADVANCES AGAINST BILLS

The exporter who seeks financial assistance from a bank is faced with the difficulty that the help he

gets may prove unnecessarily expensive. This is more easily explained if we take the simplest possible example in which a large part of the floating capital of the exporter may be assumed to be tied up temporarily in one big transaction amounting, we will say, to £10,000: assume further that the period from drawing of the bill until payment abroad and the arrival of the return remittance is three months. The discount of that bill involves the exporter being given the full amount less discount at, say, 4% per annum on the whole £10,000 for the full time. He is actually paying a rate of 4% for the financing of the operation, yet he may not require to use in his business more than a small part of the £10,000, or he may only need the bulk of it for part of the time. Under these circumstances, how much more satisfactory had the bill been given as security for a fluctuating advance! The exporter could then rely on the bank to accommodate him at 4% up to £10,000 (less a reasonable margin in favour of the bank) during the period involved, and proceed to enter on further business, happy in the knowledge that he is not paying for an advance of which he was not making full use.

Fluctuating Advances

The term "Fluctuating Advance" does not necessarily mean an overdraft on current account; it may be arranged by Loan Account operations, but the point is one of domestic arrangement be-

tween banker and customer, in regard to which any of the recognised banking textbooks give a detailed explanation.

An exporter who finds a number of foreign buyers for his wares, can to some extent overcome any difficulty by changing from discount to collection according to his current financial needs, but even so might find himself inconvenienced in filling an urgent order. He can never be sure of his future requirements in the way of finance with any degree of certainty, and it is often better for exporters to give the bank a Letter of Hypothecation over all their bills (explained more fully at the end of Chapter VI), lodge all those bills for collection, and then ask for accommodation as it becomes necessary, against the security of the bills already in course. This is not necessarily the best course in every case, or even in most cases, but it often proves a useful alternative to negotiation.

Bank's Margin Requirements

The bank always look for a margin of security and will be prepared to advance only a certain percentage of the total value of the bills outstanding at any one time. What margin they ask for depends entirely on the standing of the exporter and the class of importers with whom his transactions bring him into contact. In every case the bank seek to avoid undue credit risks and do not advance where many of the exporter's bills have given rise in the past to

difficulties in securing payment, or in transferring funds home, or where the trade involved is a risky one.

Interest Bills

Some types of trade are habitually financed by means of advances against bills, and in at least one trade it is usual for each individual deal to give rise to a separate advance. Reference to Exchange Clauses in Chapter IV shows that the "Interest" type is common in trade with the East, and the specimen Documentary Bill Lodgment Form shows how the exporter gives the relevant instruction by deleting certain words and leaving outstanding "Collect Interest . . ., etc." The exporter who draws a bill enfaced with this clause may let it go forward for collection as he is in any case earning interest on his money. On the other hand, if he is in a position to use those funds to better advantage in his business, he gets an advance by taking some of his bills to his own bank or to the London office of one of the Eastern banks.

Advances against Eastern bills are usually arranged on the basis of 75% of face value without addition of the interest, the remainder remaining with the bank on deposit. The exporter gets £75 now on a bill drawn for £100 plus interest, and a "Marginal Deposit Receipt" for the balance of £25. The bank insert the rate of interest on the bill, and collect it through their branch or agent in the

drawee's centre in the East. When the proceeds are received, they retain the interest on £75 and give the original exporter his £25 against surrender of the receipt. They also give interest on the receipt at the rate inserted on the bill, but before paying over to the exporter his £25 plus his proportion of the interest they deduct their collecting fee.

The banks in the Far East are in a particularly favourable position for the handling of documentary collections. They maintain their own warehouses at the ports, at which they can store goods after landing, and the exporter's merchandise entrusted to them can be well looked after. When the native drawee of a bill pays it, the goods can be released to him. Most of the bills are of the " D/P " class, so that, although native importers expect to be drawn on at 90 or 120 days sight, the period involved in any particular case is merely one within which the drawee knows he can get the goods at any time he re-sells, and is not one in which he is entrusted with the exporter's money or money's worth. Branch offices of European concerns in the East are often pleased to be drawn upon on the same terms, as their re-sales are to native consumers or intermediaries.

4. EXPORTERS' CREDITS

Some saving can be made by exporters who habitually hand documentary collections to their bankers (the latter holding a letter of hypothecation)

if the Acceptance Credit is employed. As we have seen, the trade bills in course are subject to bankers' lien, and where this type of credit is used, the collections are referred to as "Lien Bills" or "Bills en Pension". The exporter who contemplates financing his operation by acceptance credit, approaches his bank for accommodation in that form, and the application is considered on the merits of the exporter's own standing, that of the usual drawees of his bills, and the margin of security which he proposes to give the bank. If a credit line is accorded the exporter, he then draws bills, according to his requirements, on his bank. These must not be confused with the Lien Bills, they are entirely separate. The bank accept them if they are in order and within the limit of total amount outstanding which has been agreed, and provided that the total security which the bank have in the form of "Liens" covers the bank acceptances with a good margin.

Relative Cost

Bills accepted by a well known bank are discountable in the London bill-market at much better rates than trade acceptances. "Bank" and "Trade" rates of discount are published daily in the newspapers; on the day this chapter is written 3 months clean trade acceptances of the first class are being done at about 2½% per annum, but bank bills for the same period are being discounted at under ¾ of 1% per annum. The bank charge a commission for the

service of acceptance which varies according to the agreement with the customer in each individual case. In a representative example, we may suppose $\frac{1}{4}$ of 1% per 3 months has been arranged; then the facility costs the exporter four times $\frac{1}{4}$ of 1% on a yearly basis, and he has also to pay the British bill stamp of 1/-% on each of four bills. To reduce all these expenses to a basis of comparison with the discount of trade bills, the exporter calculates as follows:

	per annum
Cost of discounting bank bill (say) $\frac{3}{4}$% -	= 0·75%
Cost of bill stamps, 4 × 1/- - - -	= 0·20%
Acceptance commission charged by the bank, 4 × $\frac{1}{4}$ - - - - - -	= 1·00%
Total cost of finance by this method -	= 1·95%

Not only does this show him a saving which may run into considerable figures where the turnover is large, but it can be used where the Lien Bills are of a type which would not normally be discountable, as is explained later in the chapter.

The rate of $2\frac{1}{2}$% for trade bills quoted above was the rate which would be applied by the discount market to instruments of the highest class. Not only would they have to be both drawn and accepted, by an exporter and importer respectively of such undoubted standing in their trade that their names were widely known, but they would also have to be drawn on countries where no difficulty was likely to

arise during the usance of the bill: that is to say, that if the drawee's country was one where political and monetary conditions were unsound, the discount market would be averse to taking the bills. D/P bills, or in fact any type of documentary bills, are not taken by the discount market, and the exporter cannot therefore justly compare the cost of finance by acceptance credit with anything short of a discount rate of 4% (which rate was suggested in an earlier example) or one even higher than that.

Type of Lien Bills

The lien bills which are coming to banks from exporters who favour the acceptance credit, are at present largely of the type which would not be freely discounted or negotiated. Such are bills on the various South American countries whose recent monetary history does not make encouraging reading, on China where the threat of war is often present and on some Central European countries where financial stability is subordinated to political intrigue. There is even a tendency to include the "Gold bloc" group of countries in the fear that a moratorium might be imposed if any one of them should be forced off gold.

The use of the Acceptance Credit also permits the exporter to arrange a little judicious mixing of his bills, from the point of view of credit classification. Some of the foreign importers to whom he would like to sell his goods are not in a large way of business.

Though he considers them a good risk, he can hardly expect his bank to discount bills drawn upon them, but he can put those bills in as Liens, and thus possibly develop a line of trade which would not otherwise be open to him unless he were prepared to lock up much of his liquid capital.

On the other hand the average credit classification may be levelled up by the inclusion of bank bills drawn on foreign banks in foreign currency ; this is useful where the importer abroad finds it easier or cheaper to get credits opened in this form than to arrange for sterling credits to be opened by his bank with their London agent, or where exchange restrictions allow him to open them in his own centre but not abroad. In this connection the British exporter can avail himself of any forward exchange facilities his bank are able to offer (Chapter VIII) in order to provide for eventual exchange into sterling, and legitimately include the bank bills with the general run of " Liens " under his export credit in order to raise the average credit status of the security he is giving his bank.

Exports " on Consignment "

It is, perhaps, in connection with the export of goods to agents and branch houses established abroad, that the " Exporters Credit " type of finance is both most valuable to traders and most liable to cause anxiety to the bank concerned. Particularly is this so where the foreign consignee of the

goods is entrusted with the sale of them on commission on behalf of the exporter. The risk is that any misjudgment of potential markets may leave the exporter-principal with the difficult and expensive alternatives of either getting the goods sent back again or else finding some alternative foreign market for them. If the goods are specifically manufactured to meet the anticipated requirements of some native market of highly individual tastes, a misjudgment may mean that in the long run the merchandise will have to be abandoned.

However, in spite of the pessimism of the last sentence, exports on consignment to China, to other Eastern countries, and to some South American centres are financed by exporters' credits. As a general rule, no "Lien bill" is drawn, and the invoice is a "Pro Forma" one. The invoice is attached to the Bill of Lading and Insurance Policy or Certificate (and any other necessary documents) and the bundle is handed to the bank for collection. The bank are given instructions on the usual form, but great attention to certain of the directions is essential. Thus the foreign consignee of the goods is not usually given access to them after arrival, except for sampling; the goods are stored in a warehouse under the control of the collecting bank or their agent, and insured against fire, pilferage and other warehouse risks, at the ultimate expense of the consignor. As and when the selling agent disposes of the whole or any part of the merchandise, the

proceeds, less expenses, are remitted home and held by the exporter's bank in order to meet the acceptances they have given.

Renewal Bills

Should there be any delay in receiving the proceeds of lien bills or consignment collections, the bank may be prepared to accept fresh bills in order to meet maturing obligations. When an extension is asked for in this form, the strictest enquiry is naturally made before it is granted, so that the exporter who is over-estimating the purchasing power or direction of effective demand in his market, is not carried indefinitely to the eventual detriment of the bank. If the bank are satisfied on these points, they accept renewal bills and charge a renewal commission.

When the Exporter's Credit is Best

The circumstances which would lead a bank to regard an application for an acceptance credit favourably are these :

(1) The exporter asks for permission to draw on the bank up to a reasonable proportion only of the lien bills or " consignments " outstanding in course of collection. The total of his bills in course amount, for example, to £25,000 as a usual average, and he asks for drawing facilities to the extent of a total of £15,000, or even less.

(2) The trade of the exporter which gives rise to

the lien bills is to several different countries, thus giving the bank a " geographical spread " of risk.

(3) The exports are taken by several different importers in the countries concerned, not by one only in any country; the bank, as well as the exporter, thus get the spread of the credit risk over several parties.

(4) If any of the merchandise goes to countries where exchange restrictions are in force (see Chapter IX) the bank's past experience with collections on that country must have given them a favourable impression of the country's capacity to pay, and of their integrity. If a compulsory " Exchange Clearing " is in force between this and another country, the bank will not permit the inclusion of bills drawn on that other country in the total of the lien bills available as security. This arises from the fact that they cannot get a satisfactory charge over the proceeds of the collections. Even if they could do so, they would not be prepared to give acceptance facilities where collections through the clearing take a long time.

Home v. Foreign Money Rates

The acceptance credit facility is particularly valuable to exporters who quote prices in foreign currency, if the resultant bills are on countries where discount rates are higher than in London. We have observed that bills drawn in sterling are paid by a return remittance in that currency, and are thus

discounted at London discount rates ; we have seen, on the other hand, that a bill in foreign currency is negotiated at a rate of exchange based on the cost of discount in the foreign centre on which it is drawn. So if the foreign discount rate is higher than the London one, as so often happens, it would seem obvious that a course involving the discounting of bank bills in London would be cheaper by a much larger margin. Whether this proves to be so or not, depends in any particular case on the forward exchange rate, which is explained in Chapter VIII.

Bill for Bill

Acceptance credit facilities sometimes turn themselves in course of use into a "Bill for Bill" arrangement. Let us suppose, for example, that an exporter arranges to draw up to 60% of his lien bills, and that his trade is of a fairly even year-round kind, with a regular flow of orders to him. On a particular day he has outstanding £10,000 in lien bills, and the outstanding bank bills drawn thereagainst and discounted in the past amount to £6,000. He now exports a further consignment, draws his trade bill for £1,000 and takes it with the documents to his bank. He is at liberty to draw a further bill on the bank for an amount of £600, and he will in all probability do so in order to ensure the steady flow of ready money into his banking account, which is essential if he is to continue his steady flow of exports.

Bank's Irrevocable Liability

The bills which the bank accept are binding liabilities upon them. Although on the due dates they charge them to the customers who draw them, if the customer cannot meet any particular bill, that gives the bank no right to refuse payment. The bank must honour their acceptance by payment on the due date; normally the proceeds of the lien bills will be arriving and be credited to the customer's account, thus providing a balance from which can be met the liabilities undertaken for the customer by the bank. The great advantage to bank and customer is that, normally, the lien bills are "Self-liquidating assets" which provide their own reservoir to meet the drain of maturing liabilities created against them.

In conclusion, it should not be overlooked that the bank are much more favourably disposed towards financing bills where the exporter uses the facilities of the Export Credits Guarantee Department in insuring against the credit and transfer risks, which are explained in Chapters VII and IX respectively.

CHAPTER VI

FINANCE FOR THE IMPORTER

THE purpose of this chapter is to consider the transactions arising from the contracts of our buyers to purchase from sellers abroad goods which are imported into this country.

SECTION (A)—OUR BANKS AS AGENTS FOR FOREIGN COLLECTIONS INWARDS

If the payment for which the parties have arranged is a sight one, the buyer merely pays when the documents are presented to him. In the commonest case the foreign seller draws a sight bill and lodges it with his own bank abroad. They in turn arrange for a London bank, being their English correspondent, to present the bill to the drawee and secure payment. The drawee examines the documents, and he may give a banker's cheque in payment, but, in order to save trouble, the collecting bank usually take the drawee's own cheque on his banker made out in the words " Pay bill attached ". The bill is thus not surrendered until payment of the cheque, but by pinning the two together it is ensured that the bill passes on payment.

Discharge of Bills

Some dispute may arise if the price of the goods

was originally quoted in foreign (non-British) currency, as the collecting bank may desire payment of the sterling equivalent of the currency amount of the resultant bill. By our law our own currency is the only "Legal Tender" by payment of which a debt may be discharged, but the drawee may have covered the exchange with his own bank and claim to pay by giving that bank's draft in foreign currency for the amount of the debt. The point is overcome in practice by the collecting bank telephoning the drawee to agree the rate, or requesting the drawee to telephone them on the point when he has examined the documents. Should it prove that the drawee has already covered exchange, the collecting bank are usually prepared to settle the matter amicably by accepting a draft for the currency amount, drawn on the centre where that currency is used, by the banker of the drawee of the instrument being collected. Nevertheless, much trouble could be saved for all parties if the buyer and seller had originally arranged the point, and if the seller had then given effect to the arrangement by clausing the bill and quoting in his instructions to the collecting bank *either*

"Payable at collecting bank's selling rate for sight drafts on X" *or*

"Payable by approved banker's draft on X for full currency amount"—

according to which of those clauses carries out the terms of the contract.

Accommodating the Drawee

A contract which calls for a credit period may lead to some demand for accommodation by the drawee, particularly if the bill drawn is of the " D/P " type. Where the drawee knows from the outset that he will not be allowed the goods until he pays, notwithstanding a credit of (say) 90 days from sight, he asks the drawer to arrange collection through his (the drawee's) bank. This is not so difficult as it may sound, as the large banks in London each act for many different foreign banks. The drawer, when lodging the collection with his bank in the foreign centre, may stipulate that it is to be through a particular bank in London, being the bank of the drawee. That London bank is, of course, placed in the position of acting as agent of the drawer's bank in the collecting of the bill, but also being in some form of relationship with the drawee. The arrangement has this advantage, that as bankers to the drawee they know his circumstances. They know how far he is to be trusted from the viewpoints of honour in his dealings, his credit worth by capital in his business, and the degree of business acumen he displays.

Access to Goods

Under these circumstances the bank may be prepared to depart from the instructions they have received from the foreign bank, by allowing the drawee access to the goods before he pays. If they

do this, it is on their own responsibility entirely, and they do it in approved cases because they trust the drawee and wish to facilitate him in his business: it may be that they will be influenced in a particular case by the production of orders for the goods addressed to the importer by the domestic buyers to whom he has re-sold. The bank know their customer has a ready market for the goods and has only to get them into his hands in order to sell them and get payment, and then be in a position to pay the bill they wish to collect. They may be further influenced in the matter by lodgment of some security with them; the customer may have the deeds of his warehouse or factory, or stock exchange securities, or documents of title to other goods the sale of which is not so pressing, which he is willing to lodge as "Collateral", i.e. security for the due performance of the specific engagement.

The bank are here concerned to preserve the rights of themselves and their principals, the foreign bank, in the actual goods. If they let the customer take the goods and mix them with others, they will find it well-nigh impossible to trace the particular packages in which they are interested in such a manner that they could say in a law-court "These are the very goods which we handed our customer". There is also the risk that the customer might dispose of the more valuable or more easily realisable part of the consignment, use the money in some fashion other than towards payment of the bill, and

then leave the bank with a remainder of small value or one which is not easily saleable.

The Trust Receipt

The difficulty is overcome by the use of a Trust Receipt (sometimes known as a "Trust Letter" or "Trust Engagement") which is a form designed by the banks for use where the customer is

(i) Drawee of a D/P bill; or

(ii) Original applicant for a Documentary Credit (see Credits in Section (B) of this chapter); or

(iii) In domestic transactions where the security consists of merchandise: we are not concerned in this book with this use of the Trust Receipt.

(The use of Trust Receipts abroad by *foreign* banks who collect bills representing British exports is referred to in Chapter IV under Documentary Bill Lodgment—Other Instructions, and also in Chapter IX.)

A specimen Trust Receipt is given on the opposite page. The essential features of this form are:

(1) A schedule of the documents handed to the customer, together with particulars of the relative bill of exchange, and of the goods.

(2) An acknowledgment of the release of the documents; this is known legally as the "Consideration", and is a sufficient one for the law to recognise the liabilities undertaken thereagainst.

TRUST RECEIPT

London (date).......................

To THE MANAGER,
COLLECTING BANK LTD.,
LONDON.

DEAR SIR,

(2) In consideration of the release to me/us of the undermentioned documents
(3) under lien to you, I/we engage to land, store and hold the goods represented thereby as Trustee for and on behalf of the Bank. I/We undertake that the said goods shall be lodged and kept in an approved warehouse separate from our other goods, and separate from those of other parties, and that the proceeds of the sale(s) of the said goods shall be received by me/us as Trustee for the Bank, kept separate from all other my/our monies and separate from the monies of other parties, and paid to the Bank as and when received, I/we advising the Bank of the account on which such payment is made, and I/we undertake to provide the Bank by this or other means with sufficient funds to meet the said draft not less than three clear days before maturity.

I/We also undertake to keep the goods fully insured against fire with approved insurers, and to hand to the Bank the relative policy(ies) and all amounts as and when received from the said or other insurers in respect of the merchandise.

(4) I/We further undertake to return to the Bank on demand in writing at any time the said Documents or to deliver up to the Bank the said goods or any part thereof.

Yours faithfully,
For and on behalf of IMPORTERS, LTD.

6d. Stamp

(5) (Signed)..................................

(1) Bill of Exchange referred to herein:

Bank Reference No.	Foreign Remitter	Usance	Due	Amount

(1) Schedule of Documents:

Invoice	Bill of Lading	Insurance	Other Documents

(1) Details of Merchandise:

Quantity or Weight	Description	Marks	Vessel	Other Particulars

(3) An undertaking by the customer to act as the bank's agent

(*a*) in taking all the steps necessary to the disposal of the goods, keeping the proceeds of sales separate from all other monies, and to pay in the proceeds so received to meet the particular bill. The bank keep a separate account for each trust engagement where the customer has many of them, as not infrequently happens.

(*b*) in storing the goods, but bearing the expense himself. The bank reserve the right to approve the store used.

(*c*) in keeping the goods separate from all others; the goods can thus be followed by the bank if they find it necessary to do so, or if they call for the return of such part as is yet unsold (see (4) below).

(*d*) in insuring against fire; here appears also any other risks which the bank require the customer to cover and which they insert before he signs the form. The bank have the right to approve the insurers.

(4) An agreement to return the goods, or any part not yet sold, to the bank at any time they choose to call for them.

(5) The signature by the customer over a 6d. adhesive stamp.

Use of the Facility

By the use of this form, the difficulties of both bank and customer are largely overcome. The bank retain their legal formula of security in a manner which the courts recognise, and the customer is able to dispose of the goods and get payment before he himself has to pay. If he sells in partial deliveries he can pay in each separate amount received and the bank place the amounts in reduction of the customer's liability on that particular engagement. Should his buyers offer to pay by acceptances at some period after date or sight, the approval of the bank is called for: if those buyers are of such standing that the bank will discount their bills, a method is then open for the original collection item to be provided for. On the other hand, if the buyers are not considered good for the amounts, or if the collecting bank know nothing of them, the importer must either refuse their orders or ask them to get their bankers, in turn, to intervene as acceptors, in which case he again gets a freely discountable bill in payment for the goods.

It must be emphasised that the Trust Receipt is only called for in the case of D/P bills. A bill received for collection by a British bank drawn from abroad on a domestic importer and bearing the D/A instruction, permits the drawee to take the documents when he accepts. During the usance of the bill he can sell the goods without the necessity of further intervention by the bank, except for the

purely domestic transactions to which his re-sales might give rise.

Payment under Rebate

The foreign bank remitting a D/P bill, payable at some period after date or sight, to an English correspondent for collection, might instruct them in the covering letter that the drawee should be allowed rebate either

(*a*) at a stipulated rate per cent. per annum from date of payment until due date ; or

(*b*) at the London rate for operations of this type (at present about ½% per annum) from date of payment to due date ; or

(*c*) by allowing him to deduct a certain stated sum from the face amount of the bill for payment at sight, i.e. he has here only the alternatives of paying the smaller sum on presentation or the larger sum on the due date.

Should such instructions accompany the " Foreign Collection Inwards " the procedure by which they are complied with is a simple matter of calculating the smaller amount applicable, claiming it from the drawee against surrender of the bill and documents, and disposing of it as directed by the foreign bank.

In the case of a D/P bill drawn to give the debtor a credit period, which is received without rebating instructions, banking practice is nevertheless to allow the drawee the facility " (*b*) " above : he is

permitted to pay the bill and get the documents at any time which suits his convenience in the course of his business, the British bank allowing him a rebate because they can use his money at the "Rebate rate". They get something better than a promise to pay when they receive hard cash, and the position of the foreign bank is thus not detrimentally affected by the concession. Rebating is consequently often a useful alternative to applying for Trust Receipt facilities, particularly where the drawee is not known to the English bank concerned.

SECTION (B)—DOCUMENTARY CREDITS

This section of the chapter calls for the consideration of a very different set of circumstances. Suppose a buyer in this country had received the offer of certain foreign goods at a certain price and on certain stipulated conditions, one of which was that he was to provide for payment by "Opening a Credit". Then the opening of a credit in some form is the first step towards payment, an initial step which precedes the export of the goods, or which in the alternative precedes the allocation of a particular consignment to the buyer.

The "Credit" which the buyer provides varies according to the construction put on the stipulation by the parties. They must agree on this as on other essential points in the contract, and in order to be sure of agreement on the matter they are usually explicit in their definition of the credit.

Simple Form

In its simplest form, the credit can be opened by the buyer in his own books. He regards the trade order he has given as a pledge of his own credit to provide for eventual payment, and his advice to the seller takes the form of a letter or cable saying that he has accredited him for the amount in his accounts. This advice he may send through his bank, particularly if the seller is not in a position to verify the signature of the buyer. The pronoun " He " has been used throughout this book as though the exporter or importer were always a sole trader. This makes for simplicity, but, in actual fact, " He " may be a partnership or a limited company, and in respect of this latter case counter-parties in foreign trade have neither copies of the Memorandum and Articles of Association nor lists of authorised signatures and are thus not able to ensure that the contract they get is signed in such a manner as to be binding on the company. If the advice goes through a bank, it can be authenticated locally by the bank's signature.

Authority to Negotiate

The advice of credit, in the simple form we have been considering, may serve to accept an offer of goods and to notify the seller of the acceptance. It merely binds the buyer on the strength of his own credit. A rather different case arises where a " Negotiation " credit is called for; there, the

buyer instructs his bank to arrange for the purchase of the drafts drawn on him (the buyer) by a banking correspondent in the seller's centre. The importer's bank request their branch or correspondent in the exporter's centre to negotiate the seller's bill or bills of exchange on the buyer, up to a certain amount, and provided that certain conditions as to the form of the bill and accompanying documents are fulfilled.

The branch or correspondent in the seller's centre may be prepared to act on this authority to negotiate, as it emanates from a banking connection and thus there is some guarantee of standing in the matter. It may be usual in the trade concerned for this form of credit to be acted on; it is commonly used, for example, in the Australian fruit trade. The important point for the foreign bank to consider before they negotiate, or state their willingness to collect only, is the standing of the buyer on whom the bill of exchange is drawn; the buyer's bank may have provided them with a reference on that buyer, if they had not previously been interested in bills drawn on him. In any case the bills of exchange are on a trader, and not on a bank, and so are only discounted at the less favourable trade-bill rate.

Bills Arising

The instruments arising from negotiation credits may be at sight or at usance according to the wishes of the parties. In either alternative the negotiating bank abroad have the security of the documents

until they pass to the importer, and they can protect themselves by sending them with D/P instructions to the bank advising them of the credit, if the bill is not payable at sight and they wish to preserve their security until payment.

Bank Credits

The contract for sale and purchase of goods may thrust on the buyer the provision of an added measure of safety for the seller. If the seller calls for a credit opened *by a bank*, the buyer who has taken the goods on those terms must go to his bank and arrange for them to open a credit under which the bills of exchange will be drawn on them (the bank) and not on him (the buyer). In this case, the credit of the bank is substituted for that of the individual buyer, and the seller gets a better discount or negotiation rate when he realises the bills he draws on the bank than if he had drawn them on the buyer. What this margin between Bank Bill and Trade Bill rates might be in any particular transaction depends on the local discount market in the seller's centre, the amount of the bill, and other circumstances; it is usually 2% per annum or more (see under "Exporter's Credits" in Chapter V for present rates in *London*) and thus represents a considerable saving to the seller.

Bank Form "Application for Credit"

In order to arrange a bank credit the buyer goes to his bank and completes an application form. This

form is illustrated here (page 120) and must be filled in by the buyer in such a way as to ensure continuity with the terms of his contract for the purchase of the goods. If he is in a hurry to get the credit opened he asks for it to be sent out by cable or air mail. He may have been offered the merchandise at a good price subject to his arrangement of the credit in the seller's centre by a certain time, and if the credit is not forthcoming by that time the offer lapses. With this or other conditions in mind the buyer deletes the unnecessary words from the first line of the banks' form in order to tell them which method of communication he requires them to use. The following explanations of the successive phrases on the bank's form are given the references which appear on the illustration.

(*a*) The name of the seller is inserted, and also his address; if the credit is to go by cable, the cable address is also given in order to save on the cost of the message for which the buyer has to pay. The seller is referred to as the "Beneficiary" of the credit.

(*b*) The usance at which the bills of exchange are to be drawn on the bank must be that which is called for by the sale of goods contract.

(*c*) The total amount for which the bill is to be drawn. If a series of shipments are provided for, then the total amount of all the bills is given here, and the line between (*h*) and (*j*) is referred to by the bank in order to see whether they must arrange to

(Specimen of the form which is completed and signed by an Importer when he wishes his bank to open a credit.)

To THE MANAGER,
IMPORTERS BANK LTD.,
Foreign Branch, London, E.C. 2. London................ ....

DEAR SIR,
I/We hereby request you to open by Mail / Air Mail / Cable the following credit:

In favour of (Name) .... (a)
(Full address).. (a)
To be available by drafts on you at....................... (b)
To the total extent of £................ (in words.. ....) (c)
If accompanied by
(i) Bills of Lading $\frac{\text{On Board}}{\text{Received for Shipment}}$, Clean, To Order and endorsed in blank. (d)
(ii) Invoice. (e)
(iii) $\frac{\text{Policy}}{\text{Certificate}}$ of Insurance covering $\frac{\text{Marine}}{\text{Marine and War}}$ risks for invoice value plus (f)
..............per cent. and other risks as follows.............................
Evidencing shipment of
Merchandise { Description .... / Quantity / Weight .... } Price C.I.F. / C. & F. / F.O.B. / F.O.R. .... (g)
From..... ....,. *to*.... .... (h)
In $\frac{\text{part consignments}}{\text{one consignment}}$, when pro rata drawings $\frac{\text{are}}{\text{are not}}$ to be made.
This credit to be $\frac{\text{Revocable}}{\text{confirmed and Irrevocable}}$ until the.......................... (j)
Additional instructions (if any)..... . . ..

Neither you nor your Agent shall be responsible for the quantity, quality, value or description of any goods, and your right to repayment and reimbursement shall not be prejudiced or affected by any invalidity, insufficiency, irregularity or misdescription in any document.

The goods and the proceeds of all sales thereof and of all claims against shippers or insurers arising therefrom and all my/our rights as unpaid sellers shall be a security to you for all obligations and liabilities incurred by you or your Agents under or in connection with this credit and either by way of acceptance or for disbursements for cost freight insurance and any other charges payable in respect of the goods or otherwise, which I/we hereby authorise you to pay for my/our account, and for all other my/our liabilities to you present and future.

You are authorised to debit my/our account with all sums paid under or in connection with this credit or in respect of the goods, also with your commission and charges, and I/we undertake to place you in funds to meet such disbursements, and to provide you with funds to meet your acceptances three clear days before the due date thereof or earlier if required, and in the event of any default I/we give you full discretionary power of sale over the goods either before or after arrival.

I/We agree that you are not to be called upon to incur any liability under this credit beyond the due acceptance and payment of drafts drawn in accordance with its terms, and that I/we will indemnify and hold you harmless against all liability, costs, charges and expenses which you may incur under or in connection with this credit and that my/our liabilities to you are to continue in force and to be applicable to all transactions entered into hereunder notwithstanding any change in the composition of firm or firms, parties hereto or in the beneficiary/ies under this credit.

If this credit is opened by cable it is understood that the cablegram is despatched at my/our risk and cost and that you are not to be held liable for any mistakes or omissions that may arise in the transmission thereof or for delay on the part of the Cable or Telegraph Companies concerned.

Subject to the matters above-mentioned and so far as is consistent therewith, the terms of the general letter of hypothecation (if any) signed by me/us shall apply to the said items and the property and goods represented thereby.

Yours faithfully,

(Signature)............ 6d. Stamp .... (k)

(*Specimen Letter of Credit* (*Irrevocable*).)

IMPORTERS BANK LTD.

Foreign Branch, London, E.C. 2

Irrevocable Credit No......... Dated London ....

(Please quote this reference on all correspondence relating hereto.) Expiring in London.......... (*j*)

Amount £.............. (*c*)

To... (*a*)

At the request of......................... (*k*)

We hereby authorise you to draw on us at.................. (*b*)

to the extent of.......................... (*c*)

The following documents (complete set unless otherwise stated) must accompany your draft(s)

(i) Bills of Lading $\frac{\text{On Board}}{\text{Received for Shipment}}$ Clean, To Order, and endorsed in blank (*d*)

(ii) Invoice (*e*)

(iii) $\frac{\text{Policy}}{\text{Certificate}}$ of Insurance covering $\frac{\text{Marine}}{\text{Marine and War}}$ risks for Invoice value plus ....per cent. (*f*)

Other Insurance risks to be covered..................

(iv) Other Documents ....

Evidencing shipment of

Merchandise $\left\{\begin{array}{l}\text{Description............} \\ \frac{\text{Quantity}}{\text{Weight}}\text{..............}\end{array}\right\}$ Price $\begin{array}{l}\text{C.I.F.} \\ \text{C. \& F.} \\ \text{F.O.B.} \\ \text{F.O.R.}\end{array}$.......... (*g*)

From........................ *to*....................... (*h*)

In $\frac{\text{part consignments}}{\text{one consignment}}$, when pro rata drawings $\frac{\text{may}}{\text{may not}}$ be made.

Drafts drawn hereunder must clearly specify the number of this credit, and must be presented on or before.................. (*j*)

We hereby undertake to accept and/or pay all drafts regularly drawn upon us under this credit.

Yours faithfully,
For and on behalf of Importers Bank Ltd.,

(Signed) $\left.\begin{array}{l}\text{..............................} \\ \text{..............................}\end{array}\right\}$ Authorised Signatures.

(*Specimen Letter of Credit* (*Revocable*).)

IMPORTERS BANK LTD.

Foreign Branch, London, E.C. 2

Revocable Credit No......... Dated London............

(Please quote this reference on all correspondence relating hereto.) Amount £................ (c)

To.................................... (a)

At the request of......................... (k)

we hereby advise having opened our REVOCABLE credit in your favour :

drafts to be drawn on us at............................ (b)

to the extent of........................... (c)

The following documents (complete set unless otherwise stated) must accompany your draft(s) :

(i) Bills of Lading $\frac{\text{On Board}}{\text{Received for Shipment}}$ Clean, To Order, and endorsed in blank (d)

(ii) Invoice (e)

(iii) $\frac{\text{Policy}}{\text{Certificate}}$ of Insurance covering $\frac{\text{Marine}}{\text{Marine and War}}$ risks for Invoice value plus............per cent. (f)

Other Insurance risks to be covered.................

(iv) Other Documents ....

Evidencing Shipment of

Merchandise { Description..........., $\frac{\text{Quantity}}{\text{Weight}}$............... } Price C.I.F. / C. & F. / F.O.B. / F.O.R. .... (g)

From....................... *To*....................... (h)

In $\frac{\text{part consignments}}{\text{one consignment}}$ when pro rata drawings $\frac{\text{may}}{\text{may not}}$ be made.

Drafts drawn hereunder must clearly specify the number of this credit.

NOTHING IN THIS LETTER IS TO BE TAKEN AS CONFIRMATION OF THE CREDIT, WHICH IS REVOCABLE AND THEREFORE SUBJECT TO CANCELLATION AT ANY TIME WITHOUT NOTICE.

Yours faithfully,
For and on behalf of Importers Bank Ltd.,

(Signed)..........................

take pro-rata bills or whether they must wait until all the goods have been sent off before honouring any bill at all.

(*d*), (*e*) and (*f*) refer to the documents which the seller must attach to his bill or bills. According to whether the contract is C.I.F., C. & F., F.O.B. or etc., the buyer must consider what form the documents should take as outlined in Chapter III. In any case, he must not attempt to thrust upon the seller any duty and resultant expense which the seller is bound to take, neither should he part with any of the rights to which he is entitled. If the contract is F.O.B., for example, he cannot call for an insurance policy since it is his duty to provide the insurance. If Consular Invoices, Weight Notes or any other documents are required, they should be stipulated after " Invoice ", against (*e*).

(*g*) In this space the buyer provides the bank with the necessary description of the goods, stating also the quantity or weight for which he has agreed to pay. The price per unit quantity or weight is put after the initials C.I.F. or whichever remains when those inapplicable have been deleted. Thus the negotiating bank abroad, into whose hands the credit eventually comes when the bill is negotiated, can check the seller's invoice.

(*h*) Provides two spaces for names of ports. If the contract is F.O.B. " From . . ." will be completed with the name of the seller's port, whilst if C.I.F. or C. & F. terms are in the contract, the name

of the buyer's port must be filled in after " To . . .". In either case the further terms of the contract and custom in the trade must be borne in mind. For example, under F.O.B. contract the buyer may have asked the seller to put the goods on the first boat sailing for London, in which case " London " must be inserted after " To . . .", as well as the name of the port of export after " From . . .". Or there may be a trade custom for goods to be sent off " Option London, Liverpool or Glasgow, to be declared at first port reached ", in which case the buyer must say so, so that the bank get a B/L with the appropriate option clause.

(*j*) Brings us to an important point. The bank who are asked to issue a " Revocable " credit, issue one which they have the right to go back upon at any time without notice to the beneficiary. They might give the beneficiary notice as a matter of politeness, but they are not legally bound to do so. It might well be asked what benefit is derived by the parties when such a credit is opened, if the trade seller runs the risk of getting his goods together and on to a ship, only to find that the bank credit he relied upon has been withdrawn when he presents his draft and documents.

Use of Revocable Credit

The benefit to the trade seller of having a revocable bank credit is that the bill of exchange is drawn on a bank, not on a trader, and so it is discounted,

after the bank have accepted it, at the finest rate. The saving in bankers' commission (see below) makes it worth while from the buyer's point of view, as well as providing a facility which could be withdrawn in the event of "mala fides" (bad faith) by the seller. Revocable credits are extensively used in trade, often being opened by Continental buyers of our re-exports of jute, for example, and they are very seldom revoked. If the seller has any degree of trust in the bona fides of the buyer he can, in modern mercantile practice, ship against a revocable credit with a considerable measure of confidence.

Revocation Clause

Occasionally, a seller receives advice of a Revocable credit and is not satisfied thereby. He may think he is entitled to have an irrevocable credit by the terms of his contract; this arises particularly where the seller relied on getting the irrevocable form which is usual in his trade in his own country, which is not necessarily the usual custom in the same trade in the buyer's country. Any such unfortunate misunderstanding can be to some extent rectified by the buyer's bank, if they care to do so, at the request of their customer. The adjustment consists of the addition to the advice of a clause in which the buyer's bank undertake to honour any drafts drawn prior to receipt by the beneficiary of advice of revocation. When this clause is added, the buyer's bank undertake to advise the beneficiary of revocation, should

that take place, and for the cancellation to be effective it must be in the seller's hand before he negotiates. Any drafts negotiated prior to receipt of the advice must be honoured by the bank opening the credit; the seller, and banks who negotiate for him, gain this additional security.

Bills Without Recourse

The seller's demand to be provided with either an irrevocable or "Claused" revocable credit may take the form of a refusal to ship unless he can draw his bills "Without Recourse" and get them negotiated. That means that the negotiating bank will have no right to come back on him in the event of dishonour of the bill by the bank opening the credit. Thus they will only negotiate the exporter's bills if he produces an irrevocable letter of credit, or if a revocable credit had been advised by them, with the revocation notice clause, at the request of the buyer's bank. Under these circumstances the demand by the seller outlined in the first sentence of this paragraph is virtually a demand to the buyer for the greater degree of certainty which is provided by a banker's confirmation to the credit, or provision for notice of withdrawal in the revocable instrument.

Irrevocable Credit

The alternative to a revocable credit is one which is Irrevocable. The bank who agree to issue such a credit issue to the beneficiary a contract which they

cannot revoke. At their customer's request they make a credit contract with the seller, and even if their customer asks them to do so, they cannot go back on their undertaking. Whereas the Revocable Credit is not confirmed to the beneficiary (the seller) and he is not always advised by the bank of the issue of the credit, the Irrevocable Credit is confirmed to the beneficiary, usually by sending him a " Letter of Credit ". Illustrations of a Confirmed Irrevocable Credit, and of the advice which might be sent to the beneficiary of a Revocable one, follow the Specimen Application Form which the customer signs (pages 120 and 121); these Credit letters are explained later in the chapter.

Bankers' Tests

It must not be supposed that the bank act on their customer's application for the issue of a credit without some consideration of the matter. They are asked to pledge their own credit, and this they are only prepared to do after the usual bankers' tests have been applied: they consider the customer's standing and what security they have for the eventual provision by him of the funds which will be necessary to meet the bills of exchange drawn if the credit is issued. Should they not consider it sound practice to act without the prior lodgment of security, or maybe additional security, they tell the customer what they require of him. They are, of course, provided with recourse to the customer, and

a lien on the goods, by the undertaking at the foot of the credit application form which the customer signs, but they usually require some margin in case anything should go wrong. (Example, a collapse in the price of the particular goods in which their customer is trading.)

Commission Charges

The bank charge a commission for their service in opening a credit. If they merely advise an " Authority to negotiate ", this is a nominal sum, but for Revocable credits they might charge $\frac{1}{8}\%$ (2/6 per £100 of the amount of the credit) and for Irrevocable ones $\frac{1}{4}\%$ (5/- per £100) with a minimum for small amounts.

Honouring Drawings under Credit

If the space marked (*b*) in the application form is completed by the addition of the word " Sight " the bills are so drawn ; being payable on presentation, they are charged to the account of the customer when that presentation takes place, and no further charge is made. Should the credit form ask for the bills to be drawn at 90 d/s or other usance, they are presented by the foreign bank who negotiated the drafts drawn by the beneficiary. The bank which originally opened the credit is named in these bills as drawee, and they must accept them, if the documents are in order, in order to fulfil their contract. They charge a further commission, which varies with the

usance and the circumstances of each case. The acceptance commission might be, say, $\frac{3}{8}\%$ for a 90 d/s bill.

Opening the Credit

The opening of a credit by the bank to which the trade buyer addresses his form is effected by an allocation of a page in their credit-book. They send a confirmation of the credit, if it is irrevocable, to the beneficiary, as in the specimen following the customer's application (page 121), or if they are asked to advise the revocable credit they send the form of letter set out on the next page. In order that readers may follow out the details of the customers instructions, these have been given parallel reference-letters in the three illustrations.

Expiry Date

An irrevocable credit is always given an expiry date in reference (*j*). If the date mentioned arrives without the credit having been used, it expires at the close of business on that day and the beneficiary cannot thereafter avail himself of it unless he gets the buyer and the buyer's bank to agree to an extension. The revocable credit may or may not have an expiry date : it is not really necessary, but can be inserted, if thought fit, in order to show the buyer's intention.

Where Available

The place where the credit is opened is an important feature, for an expiry in London on 30th June is

a vastly different thing to expiry in, say, Sydney, N.S.W., on that date. This point must be borne in mind by the buyer and his bank in section (*j*) and elsewhere in the form. The credits illustrated are those which the buyer's bank open themselves in London, and unless it is made clear to the contrary the buyer might think that when the expiry date arrived he, in London, was absolved from liability for bills of exchange not yet presented. In order to avoid ambiguity section (*j*) should read, when completed, for an irrevocable credit which is to expire on the 30th June, 19 . . ., *either*

(*a*) " . . . confirmed and irrevocable until the 30th June, 19 . . ., in London " *or*

(*b*) " . . . confirmed and irrevocable until the 30th June, 19 . . ., this being the last day for negotiation of bills of exchange in Sydney."

Advice to Beneficiary

The bank confirming an irrevocable credit or advising a revocable one do not necessarily send their own letter direct to the beneficiary. They obviously cannot do so if the credit is to go out by cable as they have no means of authenticating any cable message sent to the beneficiary direct. What they do here, and what they do by mail in some instances, is to instruct a foreign correspondent in the seller's centre to act for them. The cable or letter they send reads " Please advise Export Sellers we have issued our irrevocable credit . . ." or else

" Please issue *your* confirmed credit to Export Sellers . . ." giving the necessary particulars which are provided by the buyer in his application form : if that form asked for a revocable credit, the above message reads " Revocable " in place of the contrary.

The foreign seller may thus receive an irrevocable credit (where his arrangement with the buyer calls for a " Confirmed Bank Credit ") in one of three different ways. He receives *either*—

(1) A Letter of Credit from the buyer's bank ; *or*

(2) An advice from a bank (not necessarily his own bank) in his own centre, to the effect that the buyer's bank have issued their credit. This must necessarily occur where the buyer asks his bank to issue their own credit, but to cable advice ; *or*

(3) A Letter of Credit from a local bank which they have issued on the instructions of the buyer's bank.

Beneficiary's Procedure

Subsequent procedure depends largely on which of these three forms reaches the seller.

(1) When he receives a Letter of Credit direct from the buyer's bank he ships off his goods in accordance with the terms, gets together his documents and pins them to the bill of exchange which he draws on the buyer's bank. He takes this documentary bill to his own bank with the Letter of Credit and his bank negotiate the bill, as a Bank Bill,

of course, at the finest rate. If he is well known in his own centre he can ensure getting a keen rate by taking the transaction to several competing banks and accepting the best offer he can secure. This paragraph gives the usual procedure where the price is quoted in the buyer's currency, sterling in our case, since the invoice, the insurance policy, the bill of exchange and the Letter of Credit are all expressed in that same currency unless one of the parties has made a bad mistake.

(2) A possible alternative is provided when all the seller receives is the local bank's advice. He again draws his bill in the buyer's currency on the buyer's bank. The local bank may have put a restrictive clause in the letter they sent with the intention that they alone should get the resultant business of negotiation. In that case the seller should take his bills to them and accept their rate, but in centres where competition between banks is very keen (as in Japan) he may nevertheless manage to arrange the business elsewhere on the strength of the advice letter.

(3) The local bank's own Letter of Credit is issued when the price originally arranged was in the currency of that centre, i.e. in that of the seller and not in that of the buyer. Had the buyer in his application form, section (*c*), inserted an amount in the seller's currency, his bank would not have issued their own credit, but would have arranged for a Letter of Credit expressed in the seller's currency to

be issued by their correspondent in the seller's centre. The bills of exchange must then be drawn in the seller's currency on the local bank issuing the credit, and the banking operation then involved is a discount and not a negotiation.

In each of these three cases, the seller must produce the Letter of Credit or Advice with his documentary bill or bills. If the credit calls for one shipment only and he has made that one shipment, the bank who negotiate or discount the bill take the credit letter or advice as well. If the seller holds a letter of credit which permits of a series of consignments being sent to the buyer, then for each part shipment he is probably authorised to draw " Pro Rata ". If that is so the negotiating or discounting bank endorse on the back of the letter of credit the amounts of each bill when they negotiate it, so that the credit thereafter shows clearly that it is only available for the undrawn balance. When the credit is exhausted by the only or final bill, it is attached to that bill by the negotiating bank.

Foreign Bank's Procedure

A foreign bank to whom the exporter hands his documentary bill for negotiation, with the relative letter or advice of credit, examine the documents to see they are in order in accordance with the Credit, and buy the bill at a fine rate (a " close " rate) of exchange. The bill of exchange is drawn on a British Bank, than which no finer instrument can be

offered, unless it be an undertaking by our government. In one instance the circumstances are such as to put them on their guard, and that is where the credit is a revocable one without the "Notice Clause". There they have no undertaking that the bill will be honoured, in contrast to the irrevocable or claused revocable credits where they have the prior undertaking of the issuing bank on the point.

Having purchased the bill they send it to London by first mail for presentation. If they previously acted as advising agent in respect of the credit, they send it to the drawee bank direct, but if they have not been concerned in the opening of the credit and the drawee bank is not their correspondent, then they send it through their own agent or branch in London. The bill is duly presented on arrival of mail; if drawn at sight and providing both the bill and the relative documents are in order in accordance with the credit, the drawee bank pays the face amount to the presenter. Bills which are drawn at usance are accepted and returned to the presenter and he discounts them in the London bill-market, or holds them for collection, according to the instructions received by him from the foreign bank.

Opening Bank's Procedure

When the bill is honoured by payment or acceptance the drawee bank (i.e. the bank originally opening the credit) take possession of the documents. They have paid or given a binding undertaking to

pay, but the goods have not yet arrived and the customer either requires possession of the documents in order to re-sell or does not wish to be bothered until the actual goods arrive. In the former case the Trust Receipt can be used in order to give the customer access to the documents and to the goods when they arrive, without giving him the bank's security, and in the latter case the bank are usually prepared to retain the documents for a reasonable time.

Payment of a sight bill is provided for by charging the account of the customer for whom the credit was opened. If the customer requires accommodation he can be given an advance against the security of the documents providing he has signed a Letter of Hypothecation (see below).

The acceptance of a bill of exchange by the bank means that they will have to pay on a certain future date, and on or before that date they look to the customer to provide the funds to meet the maturing obligation. Meanwhile, they take a Trust Receipt if he desires to handle the documents, or retain them as security under Letter of Hypothecation.

Revolving Credits

The expressions " Running " or " Revolving " have not, so far, been referred to. These adjectives are applied indiscriminately to the credit arranged in the seller's centre, through one particular correspondent of the buyer's bank, by which bills up to a certain limit of amount are permitted to be out-

standing at any one time. This variety proves useful if the trade " Seller " is an agent acting on behalf of the buyer in order to secure a stream of supplies, or where the buyer has agreed with the seller to take an agreed quantity at intervals over a period of, say, six months or a year. It saves the buyer and his bank the trouble of constantly opening new credits. Should the credit stipulate, for example, bills drawn at 60 d/s up to a total outstanding of £10,000, the seller can ship and draw for £1,000 each week; when ten such bills have been drawn the negotiating bank consider the credit as temporarily exhausted until they receive advice that the first bill drawn has been paid. When that advice reaches them a further bill can be negotiated, and so on. It must be remembered that the first bill will not be paid until 60 days, *plus mail period from seller's country to buyer's country*, have elapsed since the date of its drawing and negotiation.

Clean Credits

British and foreign banks issue " Clean " credits, i.e. credits in which no documents of title are called for. The customer applying for a clean credit usually pays the amount immediately, and takes the letter of credit with him: the usual purpose is to facilitate travel and not trade, but this form is occasionally used for trade purposes. One example of such use is where a local agent abroad of a fruit importer here has a clean letter of credit sent to him

in order that he can buy to the best advantage of his principal, the arrangement being that he draws clean bills on the buyer's bank or arranges for clean bills to be drawn on that bank by the actual sellers with whom he puts his principal in touch. He then sends the documents to the buyer direct. The agent concerned may be, of course, " Del Credere ", that is, a firm established in the foreign centre who undertake the credit risk (see Chapter VII) in respect of their principal, or he may be an employee of the buyer sent out specially.

Type Depends on Prior Contract

The type or variety of credit which any particular buyer provides or asks his bank to provide depends on his contract with the seller and custom in the trade. As a general rule, he will establish that type which costs him the least possible amount and thrusts the least possible risk on him, consonant with the terms of his contract to purchase the goods. He must beware of this risk—that if he does something less than he is bound to do, the seller can repudiate the whole contract.

The Letter of Hypothecation

It will be observed that the bank's form which an importer signs in order to apply for the issue of a credit in favour of his exporter, refers in the last sentence to the " General Letter of Hypothecation ". Where there is a series of transactions involving

documentary bills, whether bills for collection, discount or negotiation representing exports (Chapter V) or arising from credits opened here to cover imports, then the customer concerned signs one omnibus or " general " form to give the bank security in all the bills to which he is a party.

The " L/H " conveys to the bank the full ownership on the goods. It also gives the bank all the rights which the customer had in respect of

(*a*) Sales of the merchandise ;
(*b*) Claims against shippers ;
(*c*) Claims against insurers ;
(*d*) Stoppage *in transitu*.

These rights are transferred to the bank irrespective of the location of the goods. The bank are further authorised, should they so desire, to take over the goods by arranging storage and insurance, and to pay all charges to the debit of the customer. In the case of the customer's default they have the right to sell all or any part of the goods in order to pay their own advances and expenses, and they have the right to sue the customer for any balance outstanding when that has been done. In short, to use a phrase which has been employed elsewhere in this book, " The bank perfect their security in the goods" as far as is possible in the circumstances.

CHAPTER VII

THE CREDIT RISK

The buyer of goods runs the risk that the seller may fail at some time after the contract is made, but prior to delivery of the goods in the terms of that contract. The same risk is incurred in regard to the seller, but in a slightly less degree, if some climax in the seller's affairs should cause the parties from whom he himself habitually buys to restrict the extent to which they allow him trade credit. Under either of these circumstances the buyer finds himself short of the supplies of goods on which he is relying in order to continue in business: if those goods are raw materials for use in his own factory he must either shut down and throw his employees out of work, or else discover at short notice some alternative suppliers. Should the buyer be essentially an importer who buys in bulk abroad in order to re-sell to home wholesalers and distributors, as so many do, then he must " Buy in " at best in order to deliver the goods he has undertaken to re-sell, or he will be sued for breach of his contracts.

Buying in

" Buying in " consists of going into the open market and making the best bargain one can in order to

buy supplies to the extent of the non-delivery. The buyer does not lose the total sum, he stands to lose the extra which it costs him to buy in, over the original price arranged with the defaulter; that margin is likely to be a large one if the defaulting foreign seller was the principal supplier to the buyer's market, as his failure will usually mean a shortage of the commodity throughout that market and the price will be "bid" up to dearer levels. (Buying in is effected in some markets at an official price.) The buyer is an unsecured creditor for the amount he loses, unless he has managed to get some security lodged with him which belongs to the seller (example: he may owe the seller some amount on a book debt, under circumstances which give him the right to set it off against the loss).

Seller's Risk

In trade which passes in the opposite direction, the home seller is concerned with the financial standing of the foreign buyer. Arrangements by which his measure of trust in the buyer are carried into practical expression are given in detail in the earlier chapters; he may have arranged for his bills to be collected D/P, or he may have insisted on an Irrevocable Credit to be opened by the buyer's bank before he sent off the goods. Where D/P bills cannot be met by a defaulting buyer, and in many alternative examples which could be given, the seller has to find another market for his wares, in which case he probably sells at a loss.

One dare not mention " Smyrna " nowadays to our cotton piece-goods exporters in Manchester; owing to the collapse of the market in the Near East some years ago, large consignments of these goods were sent off in order to effect delivery under C.I.F. terms. By the time the bills were presented the drawees had failed, and the goods were well on their way. These cotton goods were of a type adapted for sale in that particular market, and not readily saleable in any other centre. The resultant loss ran into very large figures; it could have been avoided if the sellers had insisted on Irrevocable Credits, as their bills would then have been drawn on reputable banks, but such was not the custom in the trade.

Definition

This, then, is the Credit Risk. It may be briefly defined as " The risk that the buyer may not be in a position to pay when payment is due ", and " The risk that the seller's credit position may preclude his performance of the contract ".

Minimising the Risk

Traders have several avenues open to them by which this credit risk can be minimised. In the first place, before they enter into any transaction with the counter-party, they can get a " Banker's opinion " : that is, they can ask their own bank at home whether the counter-party is considered " Good for " a certain sum, or if he is " honest and reliable " or some

similar enquiry embodying both those expressions. If the name of the counter-party's bank in the foreign centre is given, it assists the home bank in their search for information.

Bankers' Opinions

The bank who are asked to obtain a report communicate with their correspondent in the foreign centre and discreet enquiries about the proposed counter-party are made in banking circles there. Any information obtained is communicated to the home bank, and by them to their customer, in a very guarded manner. No liability is undertaken by any bank, home or foreign, for this gratuitous service, but the answers are given honestly and in good faith, and can be of very great assistance to the enquirer.

The following are abridged examples of the type of information which is collected :

Favourable

(1) " Old-established, considered sound ; believed good for your figures."

(2) " This firm have banked with us for many years : one of the leaders in their trade."

(3) " Acts as agent for important foreign interests. Good reputation, can be recommended for business of this class."

(4) " A concern of the highest standing. We enclose copy of their latest balance-sheet."

(5) " Not known to us personally, but two other banks here report favourably."

Doubtful

(6) " Maintains a small account with us. Your figures (£400) rather large."

(7) " Well regarded locally, but said to employ small capital in proportion to volume of trade."

(8) " Cannot get much definite information. He is said to be running a family business, and appears to be prosperous."

(9) " In a small way of business. Recommend secured basis."

Unfavourable

(10) " Said to be involved in a charge of smuggling."

(11) " Reported locally that he is over-trading; does not meet engagements promptly."

(12) " No dividend paid by this concern for many years. Debenture-holders said to be contemplating taking possession of the assets."

In several of these examples banks hint, or definitely state an opinion, that the party enquired about is over-trading. This is a matter on which a bank can often come to a very definite conclusion; the knowledge that the party is at present carrying more than the risks a prudent bank think he should take in the course of his trade, should be sufficient to preclude other parties abroad from entering into trade relationships with him.

There are other aspects of the matter of bank enquiries which are examined in greater detail in the

banking text-books. The legal position of a bank making an enquiry differs from that of a paid enquiry agent, but this point is a side avenue which it is not proposed to explore in the present volume.

Commercial Enquiry Agents

Traders and banks employ agents other than foreign banking correspondents for making enquiries abroad. The commercial enquiry agents provide a valuable service, largely complementary to that rendered by the banks. Some of these firms issue to their subscribers Credit-Lists in which commercial firms at home are graded according to their standing. They also compile similar lists for a few foreign countries and they maintain very extensive files of reports on firms in all the important countries of the world, which are available to their subscribers. They have recently extended their service to include the collection of bad and doubtful debts at home and abroad, and they are prepared to advise unpaid creditors whether it is better for them to take legal proceedings, or to bring pressure to bear without having recourse to the law.

Other Information

Both banks and commercial enquiry agents give opinions on markets as well as on traders, and the Department of Overseas Trade provide a service which can give very great help in information, statistics, commercial news, and economic surveys. Any further comment would be a mere repetition of

the account of their services which is well presented in their brochure. The services rendered by the Department are interdependent with those of banks and enquiry agents, not in competition with them.

Renewal Enquiries

The trader who has secured information on his counter-party at the outset, should not neglect the obvious precaution of a periodical renewal. It is possible for the credit standing of a party to depreciate, at times with fair rapidity. The mere fact that the first enquiry evoked a favourable response, should not lull the home trader into a state of perpetual trust; he must make sure from time to time that the standing of the other party has not been affected either by his own action in losing trade or carrying on at a loss, or by economic events over which he has no control. Further, the mere fact that his own transactions have been satisfactorily concluded over a period is no guarantee to the home trader that the foreigner is still trustworthy to the original extent, whilst any increase in the volume of business with that party should be made the occasion for an enquiry to be put through in which the larger amount is mentioned.

Carrying the Risk

The trader who makes enquiries and periodical renewals may be content to carry the credit risk himself; he may be prepared to have trade deals open with each counter-party up to the limits for which he

has enquired, and he then sees that the total amount outstanding in which the credit of each foreigner is concerned is not in excess of his limit. If as a result of a banker's credit having been opened, the credit risk is that of a bank of good standing, he adjusts his records to reduce the " Line " open against the name of the foreigner.

Insurance of Credit Risk

The alternative method by which an exporter can avoid the incidence of credit failure, is by insuring the risk. Credit risk insurance is usually provided by floating policies available for lines of trade in very similar fashion to the open cover against marine risk. Declarations are made by the same procedure as in the other case (which is explained in Chapter III) except that no certificate is issued by the insured. Policies of this type are issued by underwriters and insurance companies, some of the latter specialising in this class of business (e.g. Trade Indemnity Corporation). The risk is also underwritten by the Export Credits Guarantee Department, in the form of guarantee policies, and, in view of the great interest which has been taken in the activities of this Government Department, the chapter is concluded with a short account of the various facilities they offer.

Export Credits Guarantees

(1) The Comprehensive Guarantee. When an exporter who normally invoices his goods in sterling

wishes to cover the credit risk in respect of *all* his foreign buyers (i.e. his whole turnover) he makes a "Proposal" to the Department. This consists of a request for a quotation of the premium payable to insure an agreed percentage (e.g. 75%) of such losses as the proposer "may sustain through the insolvency of any one or more of his buyers in respect of the sale and delivery to them in the normal course of the proposer's export business of goods shipped" during a named period. The type of merchandise is declared, and an undertaking is given that it will be wholly or partly produced or manufactured in the United Kingdom and will not include munitions of war.

The exporter discloses, in confidence, his total anticipated export business, giving the maximum credit period in respect of each separate country involved. Past records are also submitted, showing his turnover and bad debts in each country for the previous five completed years, together with a note of any exceptional losses he has made, a statement of any accounts then overdue, and his estimate of the proportion thereof which will eventually prove to be bad debts. He gives the sources from which he obtains information regarding buyers, declares his general intention not to depart from his existing practice in allowing credit, drawing on debtors and taking security. He undertakes that, without the Department's written consent, he will not attempt to bring within the terms of the policy any credit risk in respect of a buyer in whose profits he has a direct

or indirect share, or a further risk in respect of any buyer whose bill or account is already three months overdue or whose financial position is known to him to have become unsound. He also agrees to " declare " all shipments and certifies the truth of the facts he states.

In response to this proposal a premium is quoted; what it may be depends, in each particular case, on the individual circumstances set out in the proposal, and the degree of risk which the Department thus considers to be involved. If the exporter pays the premium required of him, he is issued with a " Policy " as in the many other kinds of insurance contracts.

Of the three general types of insurance contracts which the Department issues, the Comprehensive Guarantee is most widely used; it can be suited to the requirements of the exporter according to whether he pays (*a*) a premium based upon the payment to him of 75% of all losses covered or (*b*) a reduced premium, and bears a first loss calculated on his past trade experience, the Department paying 75% of the remainder of any bad debt arising which falls within the terms of the policy.

Continuity of cover is provided for by an undertaking that at the expiry of the period of a policy, unused amounts are to be included free of charge in the renewal policy covering the next twelve months. If the contract is not renewed, unused balances are carried over, at a nominal charge, to the second year.

Declarations are made under a Comprehensive Guarantee in the same manner as that described for marine risk " Floating Policy " in Chapter III. In addition, the exporter must declare any accounts or bills which become three months overdue. Should a loss be incurred, payment is made by the Department as soon as the debt is admitted amongst the liabilities of the debtor's estate; on their making this payment, all rights in the debt vest in the Department.

The holder of a comprehensive guarantee is bound to see that essential permits are obtained by the buyers in the foreign countries in order to comply with their laws, and, generally, to ensure compliance with foreign regulations in regard to trade and exchange, in so far as it is possible for him to do so. Whether his contract is of the " First loss " type or not, he may not insure elsewhere his own proportion of the risk unless he obtains the written consent of the Department.

(2) **Where Bills are drawn.** When an exporter, who normally draws sterling bills of exchange on his buyers, desires to cover the credit risk in respect of *one or more* of them, he completes a " proposal " to the Department. If his buyer is a foreign government, he makes a disclosure of the terms of contract for sale of goods into which he has entered, or wishes to enter: whoever his buyer, he declares that the contract is in the normal course of his business and that the goods concerned are manufactured or produced in the United Kingdom in whole or in part

and are not munitions of war. Should payment of the trade debt be secured by a guarantee or indemnity or other form of collateral security, that security is disclosed; but if there is no security the exporter undertakes not to accept any without the knowledge and consent in writing of the Department.

Obviously no insurer would knowingly write a risk which was already a bad one. Consequently, the exporter is required to pass on any information he has about the means and standing of his importers, stating the source of his information. In order to guard against any additional risk arising from a subsequent deterioration in the buyer's position, the seller is bound to abstain from drawing subsequent bills on any debtor in respect of whom the policy is issued if it comes to his knowledge that the debtor has become insolvent or has met with financial difficulties, or if for any reason the due payment appears unlikely.

A schedule of the length of credit to be granted under the contract for sale of goods, together with the maximum to be outstanding at any one time, is completed by the proposer, and details of the goods and shipment(s) are provided for use in assessing the premium he will have to pay. In any case, part of the risk has to be borne by the exporter, the Department only undertaking to pay an agreed percentage of the amount of any bill which is eventually unpaid by reason of the drawee's insolvency.

The declaration contains a clause to the effect that the proposer knows of no undisclosed circumstances which might affect the issue of a guarantee policy to him. He has to certify that the statements he makes are true, as is common in all insurance proposal forms. The correspondence between the parties is, of course, treated as confidential by both sides.

The contract which is issued when such a proposal is accepted provides for specific payment of a loss incurred as soon as it is ascertained and admitted in the case of a commercial debtor, or twelve months after the dishonour giving rise to it in the case of a government. Before such a loss is determined, any composition paid by the defaulter, or any other sum recovered from him or from the sale of any collateral security, is deducted from the amount of the bill.

The exporter is required to comply with the regulations in regard to tariffs, quotas, exchange restrictions, etc., not to vary the terms of the contract for sale of goods or the relative bills (outside certain stated limits of latitude) unless he gets the Department's written consent, and to attend to the validity of the bills and security (if any). He is, further, bound to submit his records if required to do so.

Should any bill covered by the contract be dishonoured, the Department must be advised; the bill (with any relevant security) must be handed over if they call for it, in order that they may take such action against the defaulter as they think advisable,

as agent for the exporters. More commonly in practice, they call upon the insured to take any necessary action, an alternative right for which the form provides. Should the former course be followed, however, they undertake no liability for delays or failure.

The original proposal and relative declaration are incorporated in the policy, with an agreement that it shall be invalidated if any statement on the part of the exporter should prove to be untrue or misleading, or if he should fail to perform any part of his side of the contract, or make a fraudulent claim. The usual safeguards against double insurance are included, and, in particular, the exporter is not allowed to cover the remaining part of his risk without written consent: if the policy covers 75% of the total of the bill or bills, he cannot insure the balance elsewhere unless he gets the Department's written approval.

(3) "**Open Credits.**" If goods are sold on open credit (that is when debts due to the exporter appear in his book as "Debtors" and bill of exchange are not drawn in settlement) a very similar type of policy can be "proposed". Whilst it is like the "Bills of Exchange" Guarantee Policy in most of the material particulars of proposal, declaration, and contract, the variations in the form by which the debt is expressed make a slightly different wording essential: like the bill policy, it is used when the exporter wishes to cover the credit risk in respect of one or more of his buyers.

General Comment

The policy of His Majesty's Government to do all they can to help exporters is nowhere better exemplified than in the activities of the Export Credits Guarantee Department. It is the author's experience that they fulfil their duties in a helpful spirit, and are ready to assist with advice and information whenever approached. They are in a far better position than the individual trader to assess the credit risk involved in any particular market or in selling to any individual buyer. Circumstances may come to their knowledge which will prevent British firms being caught in a " Long Firm Fraud" by a foreign buyer ; they have more chance than the individual of estimating trends in trade, and influencing the restriction or expansion of credit is thus a valuable feature of their service. As they maintain close touch with Government representatives abroad they are in a good position to judge what line of action is best to pursue, when and how to resort to legal aid, and generally to advise on recoveries of bad and doubtful debts. The exporter who covers the credit risk with them has smaller reserves to provide against the contingency of loss, whether that arises from misplaced trust in individual buyers or in the period of slump so hard to foresee. Moreover, he obtains better discount and advance facilities from his bank, which compensates to some degree for the premium he pays.

As the facilities of the Department become more

widely known and used, a progressive policy of reduced premiums and increased benefits is being followed.

(The Transfer Risk insurance offered by the Department, to exporters who already use the Comprehensive Guarantee, is explained at the end of Chapter IX.)

CHAPTER VIII

THE EXCHANGE RISK

An agreement between buyer and seller in different countries to a contract in trade involves one or both of them in an Exchange Risk. The price quoted in the currency of the buyer results in an invoice, and usually also a bill of exchange, both of which are expressed in the buyer's currency. The seller takes the risk that the eventual conversion into his money may yield him a smaller sum than he anticipated. On the other hand a price quoted in the currency of the seller leads to eventual payment to him of a sum certain in that currency, the risk being carried by the buyer of having to provide more than he anticipated of his own money in order to make the payment of that fixed sum in foreign currency.

Trilateral Exchange

Many contracts in international trade are concerned with two exchanges of money. A large volume of trade in goods which do not find their eventual market here is financed by London Sterling credits and bills accepted by London banks, drawn in sterling. The point might not appear relevant to

our present study, but, in fact, it largely affects our banks who (for example) provide the necessary exchange from Continental currencies into sterling and from sterling into Indian rupees in payment of Indian jute exports to the Continent. Our brokers in the jute market are also interested, being responsible for arranging the relative trade deals, and this is merely one of the many examples which could be given of our interest in merchandise which passes from seller to buyer without necessarily touching our shores.

Prices in a Third Currency

It is possible for a buyer here to express the price of his purchase, and thus contract to pay, in neither sterling nor the seller's currency, but in the money of a third country. So, too, for example, the seller may arrange for payment to be in dollars of U.S.A. currency when his buyer is a Frenchman. At the present moment the measurement of liabilities by third currencies is not so usual as it was a few years ago, when Continental traders stipulated for prices in U.S. dollars, but circumstances may again arise which might lead to a renewal of the practice.

Rates of Exchange

The buyer in our country who has agreed to pay in foreign money, and the seller here who has agreed to take payment in the currency of the buyer's country, are concerned with the rate of exchange between

our pound and the currency of the country of the counter-party. A rate of exchange is defined as "The price of the unit of one currency in terms of another currency", and it may be quoted in one of two forms; either the foreign unit is expressed as so many pence (or shillings and pence) each, or so many of the foreign units are quoted to the £1 sterling. Examples are:

"*Pence Rates*"

Indian Rupee - - -	1/6 each
Japanese Yen - - -	1/2 each
Brazilian Milreis - -	2¼d each

"*Currency Rates*"

125¼ French Francs - -	=£1
$4·99 U.S. currency -	=£1
12·43 German Reichsmark	=£1

The rates quoted by the London banks are reported daily in the press, are for "T/T", i.e. Telegraphic Transfer, and are based on the rates in the wholesale market which exists in London, the market between banks who buy and sell claims to payment abroad in foreign currencies. They deal between themselves in T/T, and the rate quoted to a customer for his individual requirements is founded on the market quotation. The rate for any particular currency moves fairly rapidly up and down, sometimes more one way than the other, according

to the amounts offered by customers who are receiving claims to be paid them in foreign currency, and who thus sell them to the banks in order to get sterling in exchange, and the demands for foreign currency arising from the opposite set of circumstances.

Fluctuations in Rates : The Risk

There are particular influences, apart from supply and demand for trade purposes, which affect the rates of exchange. These factors are beyond the control of the trader, and it is often beyond the merchant's power to foresee their effect on exchange rates. Unless he has some particular views arising from a close contact with economic conditions at home and abroad, the trader should not take any exchange risk. He can cover in the way best suited to his circumstances, by a contract with his bank, and he is best advised to consult the foreign department of the bank before he accepts the offer of goods for which he will have to pay in foreign money, or before he agrees to undertake an order at a price expressed in the foreign buyer's money. If this precaution is taken he will be assisted to rule out the chance of an exchange loss, and it should be emphasised that the rate quoted in the newspaper is not necessarily the rate he should use in his calculations. The circumstances in which the rate applied to his transaction may vary by a fair margin adverse to him are examined below.

Covering the Risk

There are several forms of exchange cover available with the banks. These are:

(A) For Importers and Exporters: where immediate payment is involved.

(i) An importer who owes foreign currency which is immediately payable pays by making a remittance or by meeting a bill of exchange, drawn at sight by the exporter abroad in his own currency. Sales by banks of remittances to foreign creditors have been examined in Chapter IV, and payment of creditors' drawings in Chapter VI.

The rate at which the importer's debt is converted into his own currency varies but little from the basic T/T rate ruling in the market at the time. Banks sell foreign currency at the rate at which they can themselves buy in the market, subject only to a small adjustment in their rate, adverse to the customer, to allow for their profit and expenses. Adjustments in the rate involved in allowance for expenses are worked out in two practical examples, involving more complicated data, later in this chapter.

(ii) The exporters who have funds due to them sell the exchange to their bankers: should they have arranged to draw on their foreign debtors, the currency bills with attendant documents are sold to banks at rates of exchange which allow for the collecting commission and other expenses.

When no bill is drawn, the exporter can arrange

for the foreign importer to pay the currency amount due to him, to the account of his own bank with one of their correspondents in the foreign centre concerned. On receipt of an advice that the funds have been received, the home bank credits the sterling equivalent to the exporter's account.

(B) For Importers: (Debt not immediately payable).

An immediate purchase of the foreign currency, which he will have to pay eventually, is one possible course. The bank are prepared to sell the foreign exchange to the importer and hold it, until required, with their agent in the centre concerned. The rate they give approximates very closely to the current market rate, which the importer can check up in his newspaper. A very small margin is charged in the rate to provide for the bank's expenses: instead of giving the customer $110\frac{5}{8}$ French francs for each £1 (assuming that is the market's selling rate at the time) and charging him 2/6 to cover their own expenses, the bank give $110\frac{1}{2}$ francs to £1, thus giving a smaller sum in francs and avoiding the necessity for complicated entries in their books and in the importer's own books of account.

The foreign currency purchased by the importer is held by his bank as part of their own balance with their agent abroad, "At the importer's risk and responsibility in every respect." The customer knows his funds are being held by a foreign bank whom his bank trust with their own business, and is seldom perturbed over the very remote risk of the

failure of the foreign concern. When the time comes for payment to be made, he merely instructs his bank to hand over the funds to his creditor abroad and meanwhile he is sure that the import cannot cost him more than he has already paid out, by reason of any appreciation in the value of the foreign currency. In other words, fluctuations in the rate do not affect him as he has covered the exchange risk.

The main drawback to this method is that it means "Being out of one's money." When he purchases the foreign currency, the importer pays immediately in his own money: he gives his bank a cheque, or his (sterling) account is debited. He might conceivably have used the funds in trade in the interim between purchase and the eventual payment abroad. Should short-term funds yield an appreciable rate of interest in the foreign centre concerned, his bank might give him interest on his foreign currency account, and he would be wise to compare:

(i) Any rebate he could get from the seller by paying "Spot Cash",

(ii) What rate of interest he can get on the "Currency Hold Account" balance,

(iii) What rate of interest he could get on a fixed deposit of the sterling if he effected an alternative cover for the exchange risk (see Forward Exchange, below).

Then his decision, after a comparison of the rates

of interest and exchange involved, gives rise to the course of action which is shown to cost him the smallest possible amount in his own money. A small debt need not give rise to abstruse calculations, as the possible saving is not worth the trouble, but if a large sum is involved the bank are pleased to reduce the various factors to a basis of pounds, shillings and pence, so that he can compare the alternative costs.

The customer's account in foreign currency is variously referred to by different banks as " Clients' Currency ", " Customers' Foreign Currency ", " Nostro No. 2 ", " Loro " (i.e. " Their ") or " Hold " account. The last term is universally understood in this connection, although it is not technically correct. The Hold account is also very useful to the merchant who has reciprocal dealings in the foreign currency, as where he draws part of his raw material from a country to which he also sells part of his output. The insurance companies and underwriters, who write risks and receive premiums expressed in foreign currency, also find the Hold account a useful banking facility.

Bankers prefer that customers having these accounts should refrain from drawing their own cheques for foreign amounts. The payee has to arrange for them to be presented to the bank on whom they are drawn, and the bank in turn must either agree a conversion rate or issue their own draft in payment. This involves a waste of the payee's

time ; if he is resident abroad he has also to pay a collecting commission to his local bank, and possibly a revenue stamp to his government. In order to withdraw funds from his currency account, the holder should ask the bank to issue their cheque, or to make the necessary payment to the creditor, a course which is much more convenient to all concerned.

(C) **For Exporters:** (Debt not immediately payable).

Should the foreign importer have agreed that settlement is to be by a bill of exchange drawn in his currency at a certain usance, the exporter draws that bill, attaches his documents, and hands it to his bank. Under normal circumstances, and providing the parties pass the test of credit standing, the exporter's bank negotiate the bill in the manner described in Chapter V. This is not a sterling bill, and so is not " Claused " in regard to the exchange ; it is payable by the drawee (the importer), in his own currency, for the face amount as originally drawn. The bank buy such an instrument at a " Long Rate " if it is at 90 days' sight or 3 months' sight, or at a " Tel Quel " rate if it is drawn for any other period. The bank do *not* buy the bill at the current market buying rate of exchange and deduct interest, collection charges, foreign bill stamps, etc., from the sterling equivalent. What they do is to allow for those charges in the rate of exchange in the manner illustrated in the following examples :

Bill on Antwerp Bgs. 100,000 drawn at 90 d/s.

(*a*)	Current market rate - -	29·30 per £1
(*b*)	Discount 91 days @ 5%	
	$=\frac{91}{365} \times \frac{5}{100} \times 29{\cdot}30$ - -	0·3654
(*c*)	Collecting Charges $\frac{1}{4}$% - -	0·0733
(*d*)	Bill Stamp payable in Antwerp	
	1°/oo - - - - -	0·0293
(*e*)	Risk, profit, etc., 1°/oo - -	0·0293
		29·7973

(*f*) Nearest quotable rate above is

29·80 Belgas to £1

To explain these items :

(*a*) The rate taken as a basis is the rate at which the bank could sell exchange (T/T) in the market, with the idea in mind that sending the bill to Antwerp for discount there would realise a sum in belgas which could be immediately sold.

(*b*) The rate of discount applied is that which is ruling at the time for bills of this type (trade bills) in the foreign centre, i.e. the rate at which the foreign correspondent of the exporter's bank will discount the bill. Had the bill been drawn on the importer's bank (under a credit, for example) the discount rate ruling in Antwerp for bank bills would have been used.

The period for which discount is allowed is the period for which the bill is drawn (90 days in this example) plus the mail time to Antwerp (1 day) which elapses before the bill is sighted.

(*c*) This being a documentary bill the bank charge their usual commission for collecting such an instrument: this commission is assumed to be $\frac{1}{4}\%$.

(*d*) The bill drawn in this country must bear an impressed stamp in payment of our revenue charges, which will thus be on the bill before it is negotiated. On the other hand, the Belgian bill stamp must be put on in Antwerp, and must thus be allowed for.

(*e*) This is a margin for risk of dishonour, the bank's own profit, and any incidental expenses.

(*f*) The various allowances are *added* to the basic rate, making the final quotation numerically higher, i.e. more belgas to £1. The exporter has to cede more belgas for every £1 the bank give him in return, or, in other words, he gets less in sterling for his bill than if the instrument were payable immediately (involving no loss of interest) and without the expenses arising from foreign bill stamps, documentary collection charges, etc.

The final rate quoted by the bank represents the answer to the above or some similar calculation, adjusted to the nearest quotable rate above. In the case of the rate applied to a Belgian bill, this is the next centime over the answer to the sum. A moment's thought will show that an adjustment in the other direction would mean that the bank were giving away part of their profit margin.

The following example is worked out for a "Pence" rate:

Documentary Bill at 90 d/s Yen 100,000 on Kobe.

		pence per yen
(*a*) T/T rate, at which the market buy, is $1/2\frac{1}{32}$ - - - - -		14·03125
(*b*) Discount 108 days @ 7%	0·29197	
(*c*) Collecting charge $\frac{1}{4}$% -	0·03508	0·35511
(*d*) Bill stamp 1°/oo - -	0·01403	
(*e*) Risk, etc., 1°/oo - -	0·01403	
		13·67614

Nearest quotable fraction *below* this figure is $13{\cdot}671875 = 1/1\frac{43}{64}$d. per yen, and this rate would be quoted. It will be observed that the margin for discount and expenses is deducted in the case of a " Pence " rate, so that the final quotation results in less sterling being paid for the bill by a margin equivalent to those expenses, etc. In this case the discount rate applied is 7%, which is assumed to be the discount ruling in Japan at the time.

There is an alternative basis of calculation open to the exchange operator, arising from an alternative method of covering the bill transaction, which will be examined under Forward Exchange (below).

(D) Importer and Exporter : Forward Exchange

A very valuable service provided by the banks is the cover for exchange risk by " Forwards ". An importer who has agreed to pay, at some time in the future, a sum in foreign currency, can usually arrange with his bank a rate of exchange now which

is to be applied to the eventual payment. On the other hand, an exporter who quoted his price in foreign currency and allowed a credit period can usually sell the foreign currency to his bank at a rate fixed now, notwithstanding that he will not receive that foreign currency until some time in the future; when he " Delivers " on the agreed date, that is when he receives the foreign currency from his debtor abroad and hands it to his bank, they pay him the equivalent sterling at the rate previously agreed.

An agreement to buy and sell forward exchange is embodied in a " Contract ", of which examples are given on page 169. These examples are the forms the bank send

(*a*) " Bought Contract ", where they buy from an exporter.

(*b*) " Sold Contract ", where they sell to an importer.

The visualisation of these forms, completed to meet the circumstances of particular cases, probably presents little difficulty to the reader. They are addressed to the customer with whom the bank make the contract, the town in which the currency is to be handed over is inserted after " T/T " (e.g. Paris for French francs, New York for American dollars, etc.) and the rate, and the foreign and sterling amounts each appear in the appropriate place. The term " Value ", i.e. " Value Date ", is applied to the date on which the currency is to be delivered abroad and the sterling paid here.

Options

It very often occurs that the trader cannot say for certain when payment abroad is to take place: he may be an importer who has arranged for the foreign exporter to send off the goods during a certain month, or he may be an exporter who has sold to an importer abroad for delivery during a certain period; during that period it suits him to have a margin of time to allow for early or late delivery from his suppliers, or from his own factory. Under these and similar circumstances the bank allow an " Option date ". This is *not* an option as to whether or not delivery of the foreign currency takes place: the customer *must* arrange the delivery, but he has the right to arrange it at any time between two stated dates, or during a certain period, e.g. " Option during January 19 . . ." or " Option 15th March to 14th April, 19 . . ."

Conditions of Forward Contract

In the two specimen Forward Exchange Contracts it will be noticed that the bank say " As per conditions on reverse hereof ". Practice in stating these conditions varies between different banks, for some set them out in full whilst others omit them and rely on established practice. The two main stipulations which banks make, either definitely or impliedly from usual practice, are these:

(i) The customer with whom they make the contract must maintain a margin of 10% of the sterling

(A)

BANKERS TO THE TRADER, LTD.
LONDON, E.C. 2

FORWARD EXCHANGE CONTRACT

To............................	Date..................

DEAR SIRS,

We confirm having BOUGHT from you as per conditions on reverse hereof T/T......................(town) for the amount of ....(in figures) ....(in words) Value................on which date we shall $\frac{\text{hand you our cheque}}{\text{credit your account}}$ for the sterling equivalent, namely, £.................... at the agreed rate of..........................

Please confirm to us.

For and on behalf of

BANKERS TO THE TRADER, LTD.

(Signed)...............................

Manager, Foreign Dept.

(B)

BANKERS TO THE TRADER, LTD.
LONDON, E.C. 2

FORWARD EXCHANGE CONTRACT

To............................	Date..................

DEAR SIRS,

We confirm having SOLD to you, as per conditions on reverse hereof, T/T................(town) for the amount of............(in figures)......................(in words) Value.................on which date we shall $\frac{\text{expect to receive your cheque}}{\text{debit your account}}$ for the sterling equivalent, namely, £.................. at the agreed rate of........

Please confirm to us.

For and on behalf of

BANKERS TO THE TRADER, LTD.

(Signed)...............................

Manager Foreign Dept.

equivalent in some form of security. Very often a special Deposit account is opened, and the sum which represents 10% of the sterling amount shown on the contract is transferred from the customer's current account to this Deposit account. A customer who would be inconvenienced by the depletion of his current account balance is at liberty to suggest some alternative method, such as a pledge of shares, deeds, or other security.

Whilst the contract is open, the Marginal Deposit must be maintained, so that a subsequent addition must be made to it if the rate moves adversely to the customer. If he has bought, say, dollars at 5·00 to £1, and the rate moves to 5·05 to £1, he must provide approximately 1% more, that being the extent of the depreciation. If he had *sold* the dollars to the bank at 5·00=£1, an appreciation in the dollar to 4·95 would lead to a call on him for a further 1% margin. When, eventually, the currency is delivered, the Marginal Deposit is refunded.

(ii) Should the customer default, the bank reserve the right to " Buy in " or " Sell out " against the contract at maturity, i.e. on the Value date. If the customer originally bought francs and then could not pay for them, when the time came to take them up, then on that day the bank sell his francs as " Spot T/T ", giving him credit for any appreciation or charging any depreciation against his marginal deposit before handing over the balance of that account. Had the customer sold dollars originally,

and proved unable to deliver them when the time arrived, the bank buy in to meet the contract; any depreciation results in a margin in the customer's favour, and any appreciation results in a charge for the loss against the margin.

It must not be thought that the banks take any arbitrary line of action in connection with forward contracts; their forms are designed to protect them in the extreme case, which fortunately seldom arises. A customer who meets with some delay in his trade transaction normally finds his bank ready and willing to extend the period of a maturing contract, subject to an adjustment in the rate. That adjustment may be in the customer's favour, for if he originally bought a currency which is now quoted at a discount forward, he is given the benefit of that discount; if he originally sold and forward is now at a premium, he gets the benefit of that premium. On the other hand, the customer who originally bought a currency which is now at a premium forward, or originally sold a currency which is now at a discount, finds his rate adjusted adversely by the current margin (see next paragraph for "Premium" and "Discount").

"Forward Rates"

Forward rates of exchange are usually quoted as a margin against "Spot" T/T. If T/T is quoted at 110 francs to £1 and forward 3 months ahead at 3 francs discount, then the buyer of 3 months forward

gets 110 plus 3 = 113 francs, as an "Outright" quotation. When a Pence rate is quoted forward at a discount, it is again cheaper for the buyer, e.g. T/T Kobe 1/2$\frac{1}{32}$ per yen—3 months forward $\frac{1}{32}$d. discount, then the buyer gets his forward "Outright" at 1/2 (1/2$\frac{1}{32}$ less $\frac{1}{32}$d.).

Should the spot and forward rates coincide, they are said to be "At Par", and the quotation of a "Premium" on forwards means that the buyer pays more, e.g.

(*a*) U.S.\$5·02 spot, 3 mths 1$\frac{1}{8}$ c. prem.

Outright forward 3 mths.
= 5·02 − 1$\frac{1}{8}$ = \$5·00$\frac{7}{8}$ to £1.

(*b*) Calcutta Spot 1/6$\frac{1}{8}$ per Rupee, forward $\frac{1}{16}$d. prem.

Outright forward 3 mths.
= 1/6$\frac{1}{8}$ plus $\frac{1}{16}$d. = 1/6$\frac{3}{16}$ per Rupee.

It will be seen from these examples that a "Discount" means that the importer who wants to buy forward currency, gets it cheaper than the spot rate, since in a currency quotation he gets more foreign currency for each pound and in a pence rate he pays less shillings and pence for each of the foreign units. On the other hand, the exporter who has to sell the foreign currency he is going to receive, gets less sterling when the forward is at a discount.

The "Premium" on forward means that it is dearer for the importer who wants to buy forward, but more favourable to the exporter who wants to

sell. These two types of forward margin are most easily remembered if the following rule is memorised:

Discount = cheaper for the buyer.
Premium = dearer for the buyer.

The actual premium or discount which is quoted at any particular time depends on conditions of supply and demand in the forward exchange market at the time. That supply and demand arises partly from trade and partly from purely financial transactions; the latter are movements of funds for investment, to the centres either where the interest yield is high or where the owner considers he gets the greatest measure of safety.

The margin may or may not be proportional to the period involved, e.g.:

Paris	1 month	$\frac{3}{4}$ fr. discount	not proportional
	3 months	3 frs. ,,	
New York	1 month	$\frac{3}{8}$ cent premium	in proportion
	3 months	$1\frac{1}{8}$,, ,,	

There is a greater volume of transactions in the forward market for 1-month and 3-month deals than for other dates, though 2- and even 6-month rates are also often quoted. When a bank are called upon to quote any other periods, which they refer to as "Broken dates", their rates are usually slightly out of proportion to the more usual ones. Thus if forward belgas are 4, 7 and 10 centimes discount for 1, 2 and 3 months ahead respectively, the importer wishing to buy $2\frac{1}{2}$ months forward will probably

only get 8 centimes in his favour. On the other hand, if his interest were in Canadian dollars where the bank sell at (say) $\frac{1}{2}$, 1 and $1\frac{1}{2}$ cent premium for the 1, 2 and 3 months respectively, they would deduct (say) $1\frac{3}{8}$ c. premium for $2\frac{1}{2}$ months or $\frac{7}{8}$ c. for $1\frac{1}{2}$ months.

"Outright" Cover

The trader who is arranging to buy or sell goods at a price in currency for payment at some time in the future, should enquire of his bank and ascertain the "Outright" forward rate which would be applied if he made an exchange contract for the invoice amount of the particular trade transaction he contemplates entering into. He may find that a purchase or sale of goods which yields him too small a margin of gross profit to cover his "Overheads" when he converts the currency price, at the rate of the day, is transformed into a good piece of business if he reckons the conversion into sterling at the forward rate, and then arranges exchange cover in that form when he fixes the goods. On the other hand, it would be foolish to settle a trade deal to yield a profit on the current "Spot" exchange rate appearing in the newspaper, only to find that the relative forward exchange cover took all the apparent profit out of the transaction. In the case of the importer, it might be possible to arrange an immediate purchase for "Hold Account", if he had idle funds, in the manner explained earlier in this chapter. In any

case, the importer should consider whether any forward margin quoted adversely to him leaves open the other method as a more profitable alternative.

Delivery by Sight Draft

Forward contracts are usually for "T/T", by which the seller undertakes to deliver, in the foreign centre, currency for which he receives sterling on the same value date. This is called "Valeur Compensée" or "Value Here and There same day". A customer who has sold forward T/T to his bank, and who later receives payment by debtor's remittance of a sight bill or cheque on the foreign centre, can get his bank to take the cheque or bill as delivery, in one of two ways.

(i) The bank adjust the rate of the contract, to allow for their loss of interest in the foreign centre during the mail period, and pay out the relevant sterling at once.

(ii) The bank send the cheque for collection and when it has reached the foreign centre and has been duly paid, then they pay over the sterling at the forward rate agreed.

In either of these cases the cheque or sight bill should be in the bank's hands before the value date of the contract, so that the foreign currency is collected abroad by the time that value date arrives. Should the instrument be drawn by a reputable bank, they adjust or collect as the customer desires; but if a private cheque is tendered, drawn by some party unknown to them, they prefer to collect the

instrument before paying out sterling, in view of the risk of non-payment.

Forwards as Alternative Bill Finance

It is possible to sell forward to a bank against clean or documentary bills drawn payable in foreign currency and this provides the exporter with an alternative to the negotiation of these instruments. Moreover, in approved cases, the bank are prepared to consider the bill (and documents) covered by a forward contract as if it were a bill in sterling, for the equivalent amount, and so discount it at the London discount rate. The London rate of discount may be much below that ruling abroad, yet the forward margin may not swallow up all this gain on discount rates. As an example here let us reconsider the illustration to (C) earlier in this chapter, and suppose the forward belga is 20 centimes discount for 91 days forward. The alternative is :

Bill on Antwerp Bgs. 100,000 drawn at 90 d/s

(*a*)	Current Market Rate Spot - - =	29·30
	Forward discount for 91 days - - =	0·20
	Rate at which proceeds of bill can be sold forward - - - -	29·50
(*b*)	Discount 91 days @ 2% (being London discount rate) - - - -	0·1471
(*d*)	Collecting charges ¼% - - -	0·0733
(*e*)	Foreign bill stamps - - - -	0·0293
(*f*)	Risk, etc. - - - - -	0·0293
		29·7790

On this basis the bank can give the customer the sterling equivalent at the rate of 29·78 belgas to £1, which shows an appreciable saving against the rate of 29·80 arrived at by the method in example (C).

Essentials of a Free Market

It must not be supposed from anything written in this chapter that there is a wide and free forward market in all foreign currencies. Banks are prepared to deal in any currency forward where there is a free market, but in the case of many countries today there is no guarantee for the security of bankers funds held abroad, and even dealing in T/T "Spot" may be restricted by the incidence of foreign laws. In order to cover an exchange deal forward the bank may themselves have to hold funds abroad to meet forward sales, or arrange overdrafts in the foreign centre concerned in order to cover forward purchases from customers. So, where conditions in the foreign centre preclude, banks do not deal in forward. At the time these words are written it is easy to deal forward in the currencies of the U.S.A., Canada, Sweden, India, Switzerland, Belgium, Japan, and many others : some currencies are a very poor market, and in a further group comprising Germany, Italy, Russia, Turkey and the Balkan countries, no forward transactions are being entered into.

In the cases of Australia and New Zealand, as well as South and East Africa, it is usual for prices

of goods in international trade to be quoted in our Pounds (Sterling) and thus no forward quotations are called for.

A Warning

In concluding this chapter, the writer would urge on importers and exporters the necessity for a close consideration of the exchange risk before the trade contract is made, and thereafter a comparison of the methods of cover applicable in the circumstances of the particular case. This is a point on which no trader need be bound by previous practice, nor is he necessarily restricted to the method usual in his trade.

Too many traders " Take a View " on exchanges; they are a nuisance to the exchange dealer with their " If I had only . . .", " Why didn't I cover ? " and " Why didn't you tell me ? " They rob themselves of their own peace of mind, and should consider that if the exchange dealer could foretell movements in rates he would be a millionaire, not a bank clerk. The moral for the trader is obvious.

CHAPTER IX

THE TRANSFER RISK AND EXCHANGE RESTRICTIONS

THE exporter runs the risk that the importer's country may find itself, at some time between the export of his goods and eventual payment, unable to meet its debts for purchases of goods and other financial obligations. This risk may be very remote in the case of some countries, so remote even that the exporter need not bring it into his calculations, but in the case of other countries it is such an obvious hazard that no sensible trader can overlook it. Between these two extremes lie many intermediate examples, where it is a contingency to be borne in mind and possibly guarded against.

Conditions Precedent

In most of the defaults by foreign debtor countries which have occurred during the last few years, the condition of over-valuation of currency by the spot exchange quotation has preceded the actual occurrence. By adherence to the gold standard in the face of trade competition from under-valued sterling-area countries, or from other countries whose currencies had been devalued, the export trade of the

country concerned has fallen away; their goods were too dear for foreigners to buy. On the other hand the imports of that country had increased, and the "Balance of Trade" moved adversely.

An alternative condition which might precede the break, is where the country had attempted to pay away in war-debt interest and repayments, or in reparations, a sum greater than any surplus they had obtained by exporting more than they imported.

Breaking Point

Whatever the cause, the country finds itself unable to meet current commitments and must thus make a break of some kind. One course is to declare a moratorium or "Standstill", and subsequently to limit imports, on the argument that past imports have been too large by value—larger than the exports would pay for—and therefore that restrictions must be imposed in order to avoid being forced off the gold standard. The alternative remedy is to forsake the gold standard, either going on to a paper one in its place, or devaluing to a lower value of the currency in terms of gold.

This is a very brief survey of a most interesting topic, which is only inserted here as a necessary introduction to the chapter, and in connection with which many writers have discoursed at much greater length. The matter is one of constant comment in the press, which readers have doubtless followed.

The contingency that our exporters must face is that they may not get paid for their goods, or they may have to wait a very much longer time for payment than they had originally anticipated, or they may eventually only receive a partial payment in a composition. Any of these may occur, not because the importer is unable or unwilling to pay in the only manner open to him, i.e. in his own currency, but because of laws passed by his government forbidding him to pay in the manner anticipated by the parties. Such is the " Transfer Risk ", the risk that the importer may not be allowed to " Send money out of the country " in order to meet his debt. An examination of one or two representative examples follows here in order to illustrate the manner in which debtor countries may break the form in which trade payments had previously been made.

1. **Germany** found herself unable to meet her obligations in 1931. To be fair, it must be stated that Germany would have been only too willing to export much more than she had been doing prior to the " Standstill " in order to pay for her imports as well as interest on the loans raised abroad, but was prevented by tariff barriers. Large sums were due to foreign investors and to foreign banks as well as to trade creditors: any sums due and afterwards accruing due on contracts dated prior to the break, were put to " Frozen " or " Blocked " Mark accounts in the names of the foreign creditors. The position is not yet by any means cleared up, though

some creditors have in the interim disposed of all or part of their blocked marks. This has involved a long period during which a part of the creditors' capital has been frozen, a serious matter in business, and the disposal has involved parting with the asset at a discount as "Blocked" marks have been much cheaper than "Free" ones.

2. **Brazil.** On the 27th March, 1933, the Anglo-Brazilian Payments Agreement was signed in order to liquidate a previous arrangement made in June 1933. This referred to trade debts due to British exporters for goods sent during some prior period, in respect of which it had been clearly shown that, owing to the transfer difficulty, the debts could not be met in full according to the original contracts for sale of goods. British exporters had, here again, to wait a long time for their money and to make a partial sacrifice of the amounts due to them by accepting a composition.

3. **Belgium.** A different course was followed in this case: the difficulty was not so much that of transferring funds abroad, but rather of meeting foreign competition in the trade field. The Belga suffered all the disadvantages of overvaluation, and in March 1935, the currency was devalued by 28% of its former gold content. A debt due in belgas in payment of an export from this country prior to that date would thus have shown the exporter a loss of the percentage mentioned (approximately) unless he had covered the exchange risk by a forward contract.

Outstanding sterling debts became 28% more onerous to Belgian importers, and the risk of their insolvency was thus increased.

It is not pretended that these three examples are by any means exhaustive; they are not even full explanations of what happened in each case, but they are put forward to illustrate briefly the risk and the incidence of the loss.

Origin of Restrictions

A country which finds economic forces are working to its detriment may take a course of action before the virtual default is forced upon it. It may be clear that the imports coming in could not be paid for by the exports going out, and exchange restrictions can be put into force in the hope of rectifying the one-sided position. Further, a country which has been forced to compound with foreign creditors in some manner, or which has had to devalue, may then impose restrictions with a view to preventing a recurrence of the same trouble.

General Types

Although there are as many types of restrictions as there are countries imposing them, two broad divisions can be recognised by their distinctive features, though even they overlap. These are:

(1) Restrictions on all the commercial transactions of the country's nationals which involve an exchange for the currency of another country. Any of our

exports to a country imposing this kind of restriction thus fall within the broad division, for either they are invoiced in sterling when the foreigner has to give his currency in order to get the sterling, or else the invoice is in the foreign currency and our exporter sells that foreign currency in order to get pounds. It is usually to the advantage of this restricting country to ban the import of all goods in the luxury class, or of goods which are produced at home in some form very like the imported article (good steam coal previously imported where the country produces an inferior grade) or the use of a substitute may be encouraged (imports of mineral oils stopped when vegetable oils are available).

A restricting country often imposes a partial ban on some goods, either as well as, or instead of, a total ban on certain commodities. This restriction is subject to periodical revision so that the country does not entirely prevent the goods coming in, but only admits them to the extent that she estimates she will be able to pay for them out of the proceeds of current exports.

The practical course followed in restricting goods is usually that of import licensing, by which the importer is required by law to get permission by permit or licence before he places a firm order with the foreigner who has offered him the goods.

(2) Restrictions on the monetary transactions arising from foreign trade also vary between the different countries imposing them. Often the ex-

change transaction must be licensed by the Central Bank or some bank to whom the authority is delegated. In other countries the whole or some part of the exchange deal must be put through the government or Central Bank at an "Official" rate of exchange.

How the British Merchant is Affected

Whichever of these broad divisions the restriction may fall into, the British importer is not largely concerned with them. If he is paying in sterling he is not concerned with the manner in which the exporter disposes of that sterling; unless the exporter incurs the displeasure of his fiscal authorities by evasion of the regulations, and they therefore prevent him from carrying out "Repeat" orders on which our importer is relying, the position does not affect him.

If the goods are priced and invoiced in the currency of the restricting export country, our buyer must be careful of one point; he must see that the type of exchange he buys is that which is acceptable to the trade seller. For example, most restricting countries ban the export of bank notes in order to prevent a flight of capital; as a consequence, such notes as are sent out in contravention of the regulations are in large supply and small demand in foreign countries. They are usually dealt in on a "Black Market" and it is much cheaper to buy them than to purchase a bank remittance in the form

of draft or transfer. Debtors who owe money on trade account should not buy notes of the creditor's country and remit them to him, even though the saving might be tempting, as payment is not good legal tender in a country where restrictions shut this door to the export of capital.

The British exporter is much more concerned than the British importer with any restrictions in the foreign country with which he trades. He must safeguard himself in every way he can, and his vigilance must commence before he accepts the order. Where eventual exchange to pay for the goods can only be secured if an import licence or prior permit is obtained by the would-be importer, then the exporter must get the buyer's assurance that the necessary application has been not only made but admitted. Sellers to the Argentine, for example, only place orders on their books (as a general rule) when they are assured by buyers of known integrity that the "Prior Exchange Permit" is held by those buyers. It may be that the permit given the buyer authorises him to make a series of payments, though in the case of most countries (Germany is the best example of this) importers must make a separate application for an Exchange Certificate in every individual transaction.

Effect on Documents Tendered

In order that the importer abroad may comply with his laws, it may be necessary for certain for-

malities to be complied with in connection with the documents of title. When the application for definite allocation of exchange is made it may be incumbent on him to produce the documents as well as the prior permit or exchange certificate, or he may have to clear the goods through the customers first, so that payment at sight of the documents is not possible in the manner usually required by C.I.F. contract terms. The creditor must provide for this by instructing the collecting bank to authorise their agent in the debtor's centre, either (1) to release the documents under a Trust Receipt which makes the importer the agent of the collecting bank in lodging the documents with his fiscal authorities, or in taking up the goods, and then applying, or (2) to accept a provisional deposit in local currency of the full equivalent of the amount of the sterling bill, or of some agreed percentage, as a guarantee whilst the application is made, or (3) to allow the debtor to have the documents without formality, or (4) to lodge the documents themselves, and make the necessary application.

The course which is followed in any particular case depends on the exact requirements of the foreign law and the extent of the creditor's trust in the debtor.

The form of documents necessary may be changed from that previously customary by the imposition of restrictions. These restrictions commonly favour certain countries at the expense of others, goods

from the favoured ones being given preferential admission. In order that the law shall not be evaded it is obviously necessary for a certificate of origin to be sent with the other documents. This may be merely a certified invoice or a certificate authenticated by a Chamber of Commerce, but a Consular Invoice is most commonly required.

In order to satisfy the foreign authorities it may be necessary to supply additional copies of the commercial invoice, and it may be that the importer will have to produce more than just one copy of this and the consular invoice when he calls for exchange. The documents which would normally reach him with the first bill of exchange are thus not sufficient for him to expedite the granting of exchange, and he may ask or expect the exporter to send two or more copies of both commercial and consular invoices by first mail.

Foreign Debtor's Exchange Purchase

Occasionally the buyer of goods is permitted to buy official exchange for part only of the debt, and must secure the balance in the free market. The law may only permit official exchange to be used for F.O.B. values of the goods, so that both F.O.B. and C.I.F. values have to be shown on the invoice in order to determine the price of the goods for official valuation, and the amount of freight, insurance, and other expenses payable by the debtor at the free rate.

Countries where all or part of the importer's pur-

chase is at the " Official Rate " of exchange, often require production of a certificate of a Chamber of Commerce to the effect that the price at which the goods are invoiced represents the current market. This prevents the buyer abroad getting the seller to invoice at an enhanced value, though only actually paying the true value in some subsequent adjustment. Any surplus secured at the cheaper official rate, of course, could be used as an export of capital, or in the purchase abroad of unauthorised goods, and a close watch is kept to prevent evasion of the restrictions by overcharging on the invoice.

There are countries where the purchase of exchange can, at the debtor's option, be effected before arrival of the goods. In the case of Brazil, it is permissible for the trade buyer to buy forward exchange or even to open a credit within certain specified limits. In Brazil, debtors pay in full at the free rate of exchange, and the official exchange rate only applies to 35% of *exports*. Bills of Exchange drawn on Brazilian importers are often claused " Payable in full at free exchange rate ", though this is not strictly necessary.

" Effective " Sterling

An expression which has come into common use as a result of exchange restrictions is the word " Effective ". In Czechoslovakia, if a sterling bill not bearing this term is presented to a drawee to whom the National Bank refuse their sanction, it is

paid in crowns which must go to a blocked account; the word "Effective" after the amount means that it must be paid in the currency in which it is drawn—sterling in the case of most British exports—and failure by the drawee to obtain permission to import the goods results in his inability to pay the bill. If it is a D/P bill the exporter gets it back again with the documents (through the collecting bank), and can thus get the goods returned or sent to an alternative market.

Caution to the Exporter

The phrase "May be" occurs very frequently in the foregoing section of this chapter. This is unavoidable in a general description of the working of restrictions, albeit illustrated by references to aspects of the topic which deserve express comment in the case of particular countries. A merchant who receives an enquiry from a foreign country to which he has not previously exported should enquire what restrictions, if any, are in force in that country, before he makes a definite offer or accepts a definite order. (A brief explanation of the decrees at present in force is given later in this chapter.) If no restriction is in force he should consider what chance there is that the transfer difficulty might arise before he receives payment. The thing he must *not* do, is to export first and enquire after.

The foreign buyer of goods is usually very ready to help the seller with advice and information in

regard to the form the bill and documents should take in order to meet legal requirements in the foreign country. It must not be overlooked that his view-point is necessarily biased by his own interests, and he may even try to avoid some part of the expense in which his purchase involves him according to the seller's intention in the contract, on the pretext of prohibition by his law. The exporter can secure advice from his bank, his Chamber of Commerce, or the Department of Overseas Trade, in regard to any country to which he is exporting or to which he wishes to export.

It has been suggested that this book would be incomplete without a more detailed explanation of the exchange restrictions in force in different countries, and an account of how trade is carried on in such a manner as to comply with them. The information which is given here below in respect of the more important countries concerned is given with the reserve that, although it is compiled from information believed to be accurate, the author assumes no liability or responsibility for its authenticity. Moreover, the relative laws are often varied, and some may have been changed before this book is printed.

TRADE UNDER RESTRICTIONS

The Argentine Republic ("Argentina")

The Argentine subject who wishes to buy goods abroad applies to the Control Board for a prior

exchange permit (Permiso Previo) and then gives his firm order for them. When the goods arrive, the importer pays the duties and obtains a certificate from the Customs (Form 105). Armed with his prior permit and Form 105, he then makes an application for "Official" exchange, i.e. the sale to him of the necessary foreign currency with which to pay the debt: this application must be made through an authorised bank or broker. Between the arrival of the goods and the time that exchange is granted, the importer has to have access to the goods, and must therefore be given the documents of title. Normal "C.I.F." contract terms are therefore impossible, and the exporter must instruct the collecting bank that the drawee of his bill is to be allowed the documents against Trust Receipt (which see) or a provisional deposit of his local pesos. The second method is most commonly used: the collecting bank take a deposit, at the rate of the day, of the pesos equivalent to the amount of the relative bill of exchange: in order to provide for possible fluctuations in the interim the debtor is required to sign an indemnity holding the bank covered in this respect, in case the rate should move against him. On the other hand, if the rate has changed in his favour by the time the actual conversion is made, he is repaid the surplus remaining from his original deposit. He might, instead, put up a margin of (say) 10% to cover the contingency.

Should the importer not wish to apply for official

exchange for some reason, or if his application is refused, he can still buy the goods and import them. It costs him more to do so than if he had obtained official exchange, because the "Free" rate (at which he must now pay) is adverse to him. Moreover, he has to pay a tax on the exchange deal, so that he is in a much worse position.

When a merchant receives an order from an Argentine buyer, he should immediately look for an accompanying statement that a Permiso Previo is held. If not, he should consider the credit risk in a much severer light; if satisfied on this point, it is incumbent upon him to place very definite "D/P" instructions on the bill of exchange. Should the buyer not wish to have his name mentioned as drawee of a bill marked "D/P", then the instructions which accompany the collection should be to the effect that he is only to be given the documents on depositing the full equivalent at the "Free" rate of exchange.

Argentine exporters are required by the present laws to surrender to the Control Board all exchange resulting from their sales abroad, and it is from the fund thus obtained that the country's imports are paid for.

The scheme having been inaugurated as prices of the primary produce (which the Argentine so largely exports) were recovering from the great depression, the manner in which it has worked has been particularly happy. It seems clear that this country is

building up an export surplus, and it has been predicted fairly freely in well-informed circles recently that the restriction decree will soon be rescinded. It must not be forgotten, however, that it might be thought advisable to retain the present machinery in order to be prepared for a future world slump in prices. In other words, the framework might be retained as a measure of " Economic Planning ".

Austria

Exchange restrictions became necessary following the " Stillhalte " of 1931. Whilst necessities are allowed free ingress, subject to the formality of presenting the documents to the Central Bank and obtaining an exchange permit, certain imports not of primary necessity are subject to quotas: only a certain amount is allowed to be imported within a stipulated period. In the case of non-necessities special permits have to be obtained.

Whilst he deals with importers of repute, the exporter to Austria has little to fear, particularly as the tendency is at present for restrictions to be relaxed. When drawing a bill on a debtor for trade purposes, it is usual to incorporate the word " Effective " for reasons already noted earlier in the chapter.

The above remarks do not apply to goods emanating from countries which themselves impose restrictions, or with which Austria has a " Clearing " agreement.

Bolivia

As in the Argentine, allocation of exchange is made by a Control Board, who restrict severely imports of goods which are considered non-essential. There are three grades of exchange, varying according to the type of commodity concerned: "Official" exchange is given for primary necessities, "Intermediate Commercial" is paid by importers who bring in certain goods called "Necessities of the second category", and the open-market rate is applied to other imports which have been granted permits but which do not fall within the first two classes.

Although the decree governing the present position has been in force for some months, it is rather soon to make any definite comment on the practical application of the restrictions.

Brazil

An acute phase of lack of foreign exchange some years back left this country faced with the necessity of providing for future requirements in order to meet the foreign debt service. This is done by a law which requires all Brazilian exporters to surrender, at the official rate, 35% of the foreign payments they receive. This is then used to pay the coupons on bonds sold abroad in the past, and to provide for redemption as that becomes essential. The balance of the proceeds of any export is sold in the free market where it realises much more in Milreis.

Brazilian importers have to provide for their pur-

chases in the free market, but these deals must be approved by the Central Bank (Banco do Brasil). The risk is that whilst the price of coffee (Brazil's largest export) remains low, an adverse position might again arise—in other words, the "Transfer Risk" has to be borne in mind. It is unfortunate that this country has not had the same happy experience as the Argentine.

In practice, bills are marked "Payable in full at the free rate of exchange" though this is not legally necessary.

Chile

As in Brazil, "Official" exchange is reserved for Government operations. Whilst the general restrictions are of the type which cover the purchase of exchange, and not the trade operation giving rise to the exchange operation, quotas are imposed on luxury goods: moreover, exchange is only granted as it becomes available from the country's exports, and then in the order of (1) First necessities, (2) Second-grade goods, and (3) Non-essentials. Some delay might be experienced before the payment relative to the last class is made, even if the import fell within the quota allowance. Apart from this, Chile may be compared to Brazil in that her export trade is largely concerned with one particular commodity (Nitrate) and eventual freedom from restrictions is only to be expected if greater exports of that commodity materialise.

Czechoslovakia

The restriction is upon trade transactions which give rise to foreign exchange. Except for a short list of " Free " goods, imports are subject to a prior exchange permit. This must be submitted when the shipment arrives, together with the invoice and customs receipt. It is usually possible for the importer to purchase exchange after a very brief delay, but in case the application should be refused, exporters mark their bills " Effective ".

Denmark

Essential raw materials are permitted free ingress; all other goods are subject to import licence. The licence authorises a named merchant to bring in a certain quantity of his goods within a certain period. If exporters sending to Denmark are assured when the goods are ordered that the relative licence formality is properly complied with, and the amount involved is not such as to exhaust it, they run no risk in deals with responsible parties. Actual exchange is obtained on presentation of proof of import accompanied by the licence, or by a mere customs receipt in respect of " Free " goods.

There is a risk in dealing with less responsible parties that they may place orders for goods before obtaining a licence, and then be either refused, or granted one for a restricted amount. Alternatively, the non-Danish party might despatch his wares before obtaining any assurance on the point, only to

find that his debtor used the licence formality as an excuse for obtaining protracted credit. The author is assured in responsible Danish banking quarters that these abuses are not often resorted to, and that their employment would mitigate against the grant of further facilities to the offender.

Germany

The foreign exchange position presents a rather bewildering appearance, even to the initiated. There are so many kinds of " Marks ".

The exchange restrictions are particularly stringent, and allow even the vital raw materials only limited entry to the country. Exporters to Germany should endeavour to restrict shipments to periodical amounts, sending off one when assured that the prior licence has been granted by the responsible Control Board, and then only if payment for the last consignment has been received. It should be left to the debtor to arrange the method of exchange, and care should be exercised before arranging to send goods from a third country to the Reich, in case there might be a Clearing between Germany and the third country.

There is no " Barter " trade between this country and Germany such as exists between her and many of the South American states (notably Brazil).

Greece

Certain goods are " Free ", others subject to quotas and import licensing : the usual formality is

presentation of import documents with the relative licence, but it is possible to arrange a variation of this procedure; if the Control are presented with an authenticated contract for purchase abroad, incorporating an undertaking to pay in advance (" Cash with order ") then, subject to certain guarantees, the exchange may be granted. The goods must be actually imported within one month thereafter.

In any case, the allotment of exchange is not allowed to cover bankers' collecting charges, commissions, expenses, interest, etc., so that the price at which goods are quoted to Greek buyers should allow for these disbursements. It is not possible to " Clause " the bill of exchange in order to thrust them upon the buyer.

Hungary

Prior Import Permits are essential, and must accompany the documents when application for exchange is made. The amount of any bill of exchange drawn in non-Hungarian currency should be " Effective ". Bills should not be drawn in Pengös, as the proceeds are lodged to a " Blocked Account ", the balance of which can only be sold at a heavy discount.

Italy

A " Clearing " is in force between England and Italy (Chapter X). Italian exporters are required to

surrender all exchange to their Control, whatever the destination of the goods ; imports are restricted by quota.

Exporters to Italy should be prepared to await the eventual payment through the Clearing, and in order that the importer shall be able to comply with formalities, the collecting bank should be authorised to take from him a provisional deposit in Lire pending clearing of the goods through the customs. There is no evidence that the Trust Receipt is used. The bill of exchange may be claused " Payable through Anglo-Italian Clearing " but this is not strictly necessary.

Certain goods (British coal supplied to Italian ships) are not paid for through the Clearing. In such a case the bill of exchange should be drawn " Payable by approved bankers draft on London " and the collecting bank instructed not to accept a provisional deposit of Italian currency.

Japan

Exchange restrictions, contrary to those of other countries, are of recent imposition. They affect the Japanese merchant whose imports exceed a total value of Yen 30,000 in any one month, who then has to apply for a permit, and make a return of his transactions.

It is rather early yet to comment on the position, but there is no evidence of any adverse repercussions affecting British exporters.

Nicaragua

In the main the regulations affecting Nicaraguan exporters are similar to those of Brazil. 30% of their foreign exchange must be surrendered to the Central Bank at the official rate, the remainder being sold in the free market.

Importers buy exchange in the free market, and there is here again a wide discrepancy between the two rates. Before goods are sent to Nicaragua, a careful consideration of the "Transfer Risk" is essential.

Poland

There is a small "Free List" outside which importers have to obtain licences in advance, and present them for an exchange allotment with evidence of the importation. Payment in advance is possible, as in the case of Greece, and non-Polish parties should ask for it; the collecting bank can then call for presentation of the licence before releasing the documents.

Portugal

A small part of the proceeds of exports has to be handed over at the official rate, the balance being freely disposable. No prior licence is needed for imports, and small amounts of exchange can be obtained without formality. Larger amounts are freely obtained against the usual documents, and the whole system of restriction is quite the reverse of stringent.

Roumania

There is a " Clearing " between England and Roumania, but certain " Compensation Trade " (Barter) is done as well.

All proceeds of exports must be surrendered to the Central Bank at the official rate, and imports are subject to both licence and quota.

Turkey

There is a " Clearing " between England and Turkey, through which payment for trade is made.

Imports are classified, as in other countries, some being free, others restricted by quota and yet others (luxury class) virtually prohibited.

Non-Turkish merchants sending goods to the country should attach to the more usual documents a certificate of origin, legalised by the Turkish Consul in the country of origin: both original and duplicate should go with the first batch of documents. As the importer has to produce the customs certificate that the goods have been cleared, for which both parts are necessary, it is usual to authorise the collecting bank to release all the documents against a provisional deposit of Turkish Pounds. The debtor can be required to sign a " Contingent Liability " form to cover the exchange risk, or, by pre-arrangement, to deposit a small margin in his own money in order to provide for the contingency.

Uruguay

Restrictions are upon the trade goods imported,

and quotas are granted which are understood to be related to the amount of Uruguayan goods taken by the country of origin. Thus a Consular Certificate of Origin is essential, and must accompany the bill of lading covering goods going to the country.

A prior permit must be obtained; the exporter should get assurance that it has been secured. The importer gets an exchange allotment permit and buys "Controlled Free" exchange if his goods are of the essential type, otherwise he must buy in the free market, providing always that the quota is not exceeded. Imports are not allowed to be cleared from the customs unless proper provision has been made for the exchange purchase.

Yugoslavia

Exporters are required by law to surrender a proportion of their exchange to the Central Bank: the proportion is understood to be one-third in the case of British goods, but in the case of countries with whom there are "Clearings" it varies according to the "Clearing" arrangements. Any balance can be sold in the free market.

Importers must be registered, and obtain a prior permit. On arrival of the goods an exchange permit is applied for, the application being supported by the usual documents. Bills of Exchange on Yugoslavia are usually claused "Effective", though the intention of this word can be avoided by strict application of the local law which discharges the

debtor who tenders the equivalent in Dinars. Payment in advance can be arranged, if the prior consent of the Central Bank is obtained.

Countries of lesser importance in respect of their total contribution to world trade are omitted entirely from the above list: the countries left out are:

Angola, Bulgaria, Canary Islands, Colombia, Costa Rica, Danzig, Ecuador, Esthonia, Honduras, Iceland, Iran, Latvia, Lithuania, Morocco, Paraguay, Portuguese Guinea and others.

Exporters who receive orders or enquiries from these countries should take advice on the matter of the restrictions in force before sending off goods, or even making a firm offer to the would-be importers.

The following countries are also omitted from the list for the particular reasons given:

Norway

There is no law on the Norwegian Statutes imposing exchange restrictions, but semi-official scrutiny of foreign trade operations is in force. The twofold object of the joint committee of business and banking interests which thus to some extent controls trade, is to keep imports down to the level at which they can be paid for by exports, and also to prevent a hidden export of capital from taking place. The incidence of this somewhat vague control need not affect the foreign importer or exporter (i.e. the party *outside* Norway) unless he cares to run the risk of

being put on a black list by conniving at the export of capital, or unless he sends goods to some Norwegian buyer of whose commercial integrity he is not fully assured. Translated into practical terms, this means that he must not, by pre-arrangement, retain in some other centre funds due to a Norwegian subject, and in the case of requests for samples and catalogues from a proposed Norwegian buyer not already known to him, he must be quite sure that he is not making contact with a party who is acting contrary to the spirit of the unwritten embargo.

Russia (U.S.S.R.)

Foreign trade contacts of this country are made through official channels. The normal trade and financial machinery of " Capitalist " society has been so greatly modified, that trade enquiries no longer emanate from commercial " firms " of the various types to which we are accustomed.

Spain

As these words are written, Spain is in the throes of a civil war. Exchange restrictions are imposed by both sides in the conflict, and up till quite recently a " Clearing " was in force between England and the Madrid Government. Comment on the greatly reduced trade of Spain is therefore likely to be of little value until more settled conditions are established.

Export Credits Guarantee Department : Insurance of the Transfer Risk

Any exporter who covers the credit risk under a Comprehensive Guarantee with the Export Credit Guarantee Department can also ask them to extend his policy to cover the transfer risk. The additional cover guarantees that the insured will receive from his solvent buyer 75% of the debt six months from the original due date, notwithstanding any transfer moratorium or restrictions on exchange transactions imposed by the debtor's government meanwhile.

As the exchange position of particular countries buying our goods may change with fair rapidity, the Department cannot plan very far ahead, and goods must be shipped within three months of the date of the transfer guarantee and sold on cash or short-credit terms ; further, the premium charge varies with the length of credit accorded to the buyers, with the country concerned, and with the class of goods involved. Renewals are normally arranged for further periods of three months, on the premium terms then current and provided that the exchange position and other conditions have not so deteriorated that the Department is not prepared to issue additional cover.

On his side, the insured (i.e. the exporter) must comply with exchange regulations and import restrictions and declare his shipments as they are made. Should the government of the foreign country concerned step in and prevent the exchange transaction by which our exporter would normally " bring his

money home", then he is assured that he has only six months unexpected wait for it. Meanwhile, the debt is guaranteed by our Government. Bankers are willing to make (or continue) advances against Government obligations. At such a time, without the backing of the Guarantee, they would be strongly disinclined to take the debt as security. When the insured receives payment he can discharge his indebtedness to the bank, but the Department naturally take a charge over any proceeds eventually forthcoming.

It must be emphasised that the Transfer Risk cover is only available to exporters who insure the credit risk for all their foreign importers under the Comprehensive Guarantee. Transfer risk insurance is not normally available in any form for individual transactions, or for trade with individual buyers. The Department disclaim any intention to establish a subsidy to exporters, and, as in the credit risk side of their business, a self-supporting basis is being aimed at: the premiums provide the fund from which losses are essentially payable.

The direct advantage of this new type of insurance is the obvious one, that it enables exporters to cover a risk which the circumstances render them almost entirely incapable of assessing. Here, again, the Department has access to much more reliable and up-to-date information than the trader; the latter is likely to be working in the dark, or to place reliance on biassed sources of information.

The insured exporter knows that the worst that can happen to him is a delay of six months, during which time he can probably arrange to be carried financially. The uninsured trader does not know how long he might have to wait, and the worry of the waiting period is enhanced by not being able to carry on his usual volume of trade whilst part of his capital is thus tied up; eventually he may even have to cut a loss by selling some "blocked" currency by payment of which the debtor has meanwhile secured his legal discharge from the obligation in his own country.

The indirect advantage of being quoted a premium rate for various countries is that it enables exporters to gauge the risk in regard to their own 25%. Although the Department expressly state that they do not consider it part of their functions to advise on the exchange position of foreign countries, the mere fact that he has been asked for a high or rising premium on a certain country may be sufficient deterrent to prevent the exporter from undertaking deliveries when conditions are changing for the worse.

There is an indirect advantage, not quite so obvious as the direct one, in covering both credit and transfer risks together; should a devaluation be decreed in the foreign country in order to avoid imposing transfer restrictions, the credit risk may be enhanced by even more than the extent of the legal depreciation. The debtor has to pay more than the

original equivalent of the sterling debt in his own currency, and unless he has covered the exchange risk forward, he stands to lose on his import contracts. The loss may be sufficient to force him into liquidation, and the contingent loss on the exporter's side arising from this chain of circumstances makes the combined cover singularly applicable to his needs. It insures the risks whichever course is taken by the country which finds itself unable to meet exchange commitments.

CHAPTER X

EXCHANGE CLEARINGS AND BARTER

An enquiry by a trader to discover whether or not restrictions are in force in any particular country may elicit the information that a "Clearing" is in force between that country and his own, or the trader may already be informed on the point. A Clearing agreement is one in which the nationals of a country are bound to pay for any imports by lodging their own currency with the Central Bank in their own country, or with some other body especially constituted to control exchange. The simplest form of Clearing is a unilateral one, where the imports of a country are paid for in this manner, but the exports from the country are not necessarily paid for abroad by lodging proceeds with any central authority. The original Italian Clearing was of this type, and the proceeds of her imports were held for eventual payment to the British creditors concerned, as and when exchange became available, in chronological order of the lodgments of lire with the Istituto Nazionale per i Cambi con l'Estero (to give the body controlling exchange its full title). The important point is that the Italian importer got his legal discharge for the debt when he paid the equiva-

lent in lire to " Istcambi ", but the British exporter remained a creditor for the sum for some considerable time.

Bilateral Agreements

On the publication in London of the " Sanctions Order " of October 1935, the Clearing with Italy was made a two-way affair. It became compulsory for British trade debtors to pay the amounts they owed to the Controller of the Anglo-Italian Clearing. Previously British debtors had had the option of payment to the Clearing, or to the Italian creditor, either direct or through his collecting bank.

There are other bilateral clearings in force to which this country is one of the parties ; whilst the former arrangement with Spain no longer functions, there are clearings with Turkey and Roumania, and in both these cases there is similarity on the most important points with the Italian arrangement.

Except for small debts, British importers must pay the sums they owe to the Controller of the relative Clearing, wherever the goods imported are grown, produced or manufactured in the other country : it is not possible for payment in this manner to be evaded by trans-shipping the goods at a port in some third country. Should part of the invoice value cover freight, insurance, or commissions paid or payable in Sterling, the debtor is only required to pay over the F.O.B. value, and, providing he gets permission to that effect from the

controller, the balance can be paid to the foreign exporter, or to his agent.

Drawee's Legal Discharge

Where a bank acts as collecting agent of a bill (representing an export from a country with which we have a clearing), bearing instructions " D/P ", that bank must release the documents to the British drawee on payment by him of the amount due *to the Clearing*. This gives the drawee a valid discharge and entitles him to the documents, and the collecting bank is bound to accept the Controller's receipt as equivalent to payment of the bill. If there are other conditions in the collecting bank's instructions which arise from the actual or implied terms of the contract for sale of goods, those must be fulfilled, except that a stipulation in regard to the payment which seeks to evade the Clearing must not be complied with.

The Clearing Account

The sums paid to the Controller in respect of trade debts are lodged to a special account in the Bank of England ; they are paid in to the bank for the credit of the Controller, on special pay-in slips, by the debtor or his banker. As the balance of the Controller's account is built up, so payment becomes available for British creditors in respect of their exports, and they receive their cheques in the order of the date on which the debtor abroad lodged his payment in his own currency with his own Control.

The System in Practice

In theory, the whole system is a good one, for it brings home the fact that exports can only be paid for by imports. In practice it provides a channel through which exporters may receive payment, although balances adverse to one of the countries may be built up. At the inception of the agreements in which we are interested, there were balances due to British exporters. Procedure in regard to these outstanding balances differs in different instances; in the case of the former Anglo-Spanish Clearing it was supposed to be cleared off before current exports were paid for, but in the case of Roumania proceeds of our current imports are allocated as to 50% to the settlement of outstanding and current trade debts, and the balance in payment of other debts. In effect, both Italy and Roumania are debtor countries and current exporters cannot expect to receive payment for a considerable time.

The departure from the former "Free Exchange" policy of our Government was made with the intention of protecting British creditors from the effects of a further deterioration in the position. Whilst the general price level remains higher in the debtor countries than it is at home, it is difficult to see how the balance can be cleared off. The effect of a reduction in our exports to the debtor countries is not what was looked for: what was intended to be encouraged was an increase in our imports from those countries, the proceeds of which could be used,

in whole or in part, to liquidate the balance of indebtedness.

The Future

Over one hundred clearing arrangements are now in force, mostly on the Continent and mostly of the bilateral type, but some in which three or more countries are concerned (which are thus known as "Trilateral" or "Multilateral" Clearings). Some writers, notably Doctor Paul Einzig, foresee an extension of the principle to embrace a large number of states in multilateral agreements. On the other hand, the League of Nations Committee had little to say in favour of their extension, regarding Clearings rather as a temporary expedient by which a total collapse of trade had been on occasion avoided. During the last two years a few agreements between Continental states have been rescinded.

Procedure for Importers

The importer who can buy, and re-sell at home on a margin of profit, some particular line of goods from a country with which we have a Clearing Agreement, must necessarily make himself acquainted with the particular legal requirements which affect his case. He will probably find that he can still buy on C.I.F. terms if that was the previous custom of his trade, and pay at 90 days sight or other usance if that is his usual arrangement with the seller. He must pay the Controller of the Clearing when the

time comes for payment and either he or the exporter (whichever pays charges under the terms of the contract) will possibly incur rather more expense in collecting bank's commission than before. He may find it necessary to ask the seller for some document not previously used in the trade, such as a consular invoice, or an invoice mentioning both C.I.F. and F.O.B. values, and he will usually find it more expedient to buy at a price in sterling. Should the invoice be in Italian Lire or some other foreign currency, however, he can pay the equivalent sterling at the appropriate rate published in the newspapers at the foot of the exchange table. These rates are fixed daily by the Controller and given to the press.

Imports from Italy

On arrival, the importer of goods grown, produced or manufactured in Italy of a value of £3 or over, has to complete "A.I.C.O. Form 1" before he clears the goods through the customs. The form is illustrated here: it calls for a statement of the import and the value. The procedure is simplified if the exporter has provided an extra copy of the invoice which the importer can then attach to his declaration. By using a carbon paper between the top of Form 1 and Form 2A, the importer obtains a copy for his own records. The bottom part of the second form—known as "2B"—is used when lodging the relative payment at the Bank of England for the

account of the Controller of the Anglo-Italian Clearing.

When our importer pays the Clearing he obtained a numbered and stamped receipt ; it is usual for him to advise his seller of the receipt number, as it is used by the Controller in reporting to the Italian bank : thus the exporter can get the transaction traced if there is any delay before he receives advice that the British buyer has completed his contract.

Procedure for the Exporter

Where he normally finds a good market for his goods in a " Clearing " country, our exporter has to consider whether the risks he now runs make it worth his while to continue that part of his trade, and whether the margin of profit compensates him for the delay in payment. A bill for £100 in respect of which he will not receive hard cash for a year or more is worth, in all probability, only £80 to him. The sound rule, and one which has been widely adopted as a guiding principle, is only to fill the order if the Exports Credits Guarantee Department will " Write " both the credit and transfer risks, and if the transaction at the price quoted results in an extra-normal gross profit by at least the premium payable to the Department, in addition to the loss of interest during the waiting period. In other words, the foreign importer has to pay a higher price for the goods by reason of any delay in securing payment through the Clearing.

(A I.C.O. Form 1) A.I.C O. Reference No. 00000

To THE CONTROLLER,
ANGLO-ITALIAN CLEARING OFFICE,
35 Cromwell Road, South Kensington,
LONDON, S.W 7

The undermentioned Italian goods have been imported into the United Kingdom

PORT OF ENTRY	NAME AND ADDRESS (IN BLOCK CAPITALS)	
	United Kingdom importer	Italian exporter
SHIP AND DATE OF REPORT		

Nature of goods	Quantity and weight of goods	Total amount of invoice in currency of invoice	Value on which Duty has been accepted	Due date of debt

Note.—The above particulars are required also on Form 2*a*. (Please use carbon paper with copying ink pencil.)

Payment $\left\{\begin{matrix}\text{has been}\\ \text{will be}\end{matrix}\right\}$ made to Anglo-Italian Clearing Office by........................
(NAME, BLOCK CAPITALS)

(Delete words not applicable.)

....
(ADDRESS, BLOCK CAPITALS)

REMARKS (for use of Importer—see (5) below).
Copy of Invoice (not) attached.

Signature of Importer or Authorised Agent..

Date.......................... Address..

IT IS A PUNISHABLE OFFENCE AGAINST THE CLEARING OFFICE (ITALY) ORDER 1936 TO FAIL TO SUPPLY THE ABOVE INFORMATION OR KNOWINGLY TO GIVE FALSE INFORMATION OR FOR PAYMENT TO BE MADE OTHER THAN THROUGH THE ANGLO-ITALIAN CLEARING OFFICE.

INSTRUCTIONS

(1) This declaration must be completed and handed to the Customs.
(2) A copy of the invoice (in addition to the copy required by H M. Customs and Excise) should be attached in all cases unless a copy of the account sales will be supplied to the Clearing Office
(3) Payment must be made to the Bank of England for account of the Clearing Office even though the debt in respect of this importation is represented by a bill of exchange
(4) Form 2 should be retained by the importer. The lower section should be used by the person or bank making payment to the Bank of England.
(5) Details to be shown under Remarks :—
(*a*) Where bills of exchange have been or will be drawn, give full particulars including name of drawee, due date and amount.
(*b*) Where payment has already been made give particulars of the date and amount and the number of the Bank of England receipt.
(6) If a copy of the invoice is not available or any of the required particulars are not known at the time of importation, they must be furnished to the Anglo-Italian Clearing Office as soon as possible and the reference number of this declaration quoted.

FOR USE IN COLLECTOR'S OFFICE

REMARKS ENTRY STAMP

(A.I C.O. Form 2a.)

A I.C.O. Reference No 00000

To be retained by importer
The lower section should be utilised when making payment to the Bank of England.

This reference number *must* be quoted in all correspondence and if payment is being effected by instalments *must* be quoted when each payment is made

The undermentioned Italian goods have been imported into the United Kingdom —

PORT OF ENTRY	NAME AND ADDRESS (IN BLOCK CAPITALS)	
	United Kingdom importer	Italian exporter
SHIP AND DATE OF REPORT		

Nature of goods	Quantity and weight of goods	Total amount of invoice in currency of invoice	Value on which duty has been accepted	Due date of debt

(A.I.C.O Form 2b)

A I C.O. Reference No. 00000

To THE CHIEF CASHIER,
BANK OF ENGLAND, LONDON, E C 2

.... 19.....

Payment to be received for account of the Controller of Anglo-Italian Clearing Office:

Paid in by (Use block capitals) NAME ....
FULL POSTAL ADDRESS ....

Debtor in United Kingdom (Use block capitals) NAME ....
FULL POSTAL ADDRESS ....

Beneficiary (Use block capitals and give name of a bank, where possible, in order to, expedite payment.) NAME ....
FULL POSTAL ADDRESS ....
COLLECTION NO. OR ACCOUNT TO BE CREDITED (IF ANY) ....

Nature of goods ....
Amount of debt in original currency ....
(Where debt is not expressed in sterling) @........ (rate of conversion)=£..............
*Less disbursements (if any) in the United Kingdom in respect of the goods :—

Freight ....
Customs duties ....
Commission ....
Other (give details) ....

AMOUNT OF PAYMENT - - £

When payment has already been made, the date, amount of payment and the Bank of England receipt number should be inserted above and the Form 2b sent direct to the Clearing Office.

The official receipt will be sent to the person from whom payment is received.

Cheques must be drawn payable to "Bank of England or Bearer" and crossed "Bank of England A/c Controller Anglo-Italian Clearing Office".

Where a bill of exchange has been drawn by the creditor, this form, after insertion of the name and address of the debtor in United Kingdom and amount of debt, should be delivered for completion to the Banker presenting the bill for payment.

*If a copy of the account sales has been or will be supplied to the Clearing Office, only the total amount of disbursements need be stated.

Banks' Services

Banks are still acting as collecting agents for documentary bills outwards on countries with which we have Clearings (as outlined in Chapter IV), and for documentary collections inwards from those countries in the manner described in Section A of Chapter VI. They regard with strong disfavour an application for an advance against, or discount of, bills drawn on those countries, except where the exporter produces the guarantee of the Export Credits Guarantee Department. Where the exporter has taken that very necessary precaution, they are usually prepared to make advances against the hypothecation of the documentary collection, but they do not and cannot be expected to discount or negotiate in view of the indeterminate period before payment is forthcoming.

Compensation Trade

The laws passed to implement the different Clearings expressly exclude a number of transactions which arise from Barter agreements between parties. These are usually contracts to pay for a specific import by a specific export without the intervention of any monetary transaction. This reversion to a primitive swapping of goods is a somewhat retrograde step by which modern civilisation admits its failure in the important matter of exchange.

"Compensation Trade", as barter is called

officially, also occurs in the case of German imports and exports. The Germans have invented a system of " Aski Marks " in order to measure the value of the two lots of goods by some common denominator. Although there is no barter with this country, German trade particularly with South America is being carried on by this method, very often by banking intervention. A non-German bank which sees an opportunity of bringing together some of their customers who wish to export to Germany and others who desire to import from her, is geographically *either*

(*a*) Domiciled in the country from which the exports originate and in which the imports are to be consumed ; *or*

(*b*) Outside the countries of origin and destination; this occurs with British banks (particularly Merchant Banks) who have a clientele amongst firms engaged in " Transit Trade " (examples in general world trade : Indian jute going to Belgium, Soya beans from Manchukuo to Holland and Brazilian coffee which is finally consumed in Scandinavia).

According to the location of the bank or merchant instigating barter trade with Germany, so the relative marks in the German accounts are classed as

(*A*) " ASKI ", which is short for " *A*usländer-*S*onder *K*onto fur *I*nlandszahlungen ", i.e. Foreigners' Special Accounts for Payments in Germany; or

(*B*) "Transit ASKI" where the business is initiated from a third centre engaged in transit trade. Normally, transit Aski is only applicable where a non-German bank intervenes.

The following is a brief example of the possible inauguration and operation of an ASKI-mark account by a South American bank which sees an opportunity of facilitating trade between their own country and Germany:

(*a*) The bank apply to the German central bank, direct or through their Berlin agent, for a permit to open an Aski-mark account to cover certain stated goods passing between the two countries. When this is obtained—

(*b*) Goods are sent from the South American country to a German buyer by an exporter who is a customer of the Aski-mark account-holding bank. Instead of being drawn upon (and thus paying the debt) by a bill of exchange, or instead of sending a "Debtor's remittance", the importer pays the amount he owes to the Berlin agent of the S.A. bank, who credit it to the Aski-mark account.

When the price of the goods is C.I.F. a German port, the freight must be paid to a German shipping company in order to qualify as part of the total invoice value payable to the Aski account.

Before he enters into the relative contract to purchase the goods, the buyer must get a special permit from the relative Supervisory Board. Certain types of goods would not be allowed to be brought into

Germany even under compensation, and the regulations are framed with the general intention of fitting in with the country's planned economic policy. In particular, goods which can be produced at home are only allowed entry if in very short supply on the home market, and even then only if there is no home production of a possible substitute.

(*c*) When goods are exported from Germany under this arrangement, the seller produces his documents to the Berlin agent of the S.A. bank whose customer is buying the merchandise. When authorised to do so by their S.A. principal, the Berlin agent then pays the German seller the amount of the invoice, and charges the amount so disbursed to the Aski account. This payment can be made to cover not only F.O.B. or " Ex-Works ", " Ex-Store ", etc. prices, but also land and sea freights charged by German transport firms.

Should it prove necessary to finance the exporter to the extent of advance payment of transport charges paid to a German transport house, or if the S.A. importer buys on terms which make him responsible for those charges, then they may be paid out of the Aski account even if that creates an overdraft. Except in these circumstances, the account must not be overdrawn, so that it can be seen that Germany makes sure she gets goods from abroad before she sends others in payment under this type of trade.

Other Examples of Barter

It has been reported recently that Denmark is short of coffee. The price within the country tended to rise owing to bidding by dealers, factors and preserving factories. The reason that the position is not immediately rectified by increased imports is a general shortage of foreign exchange in the hands of Danish banks ; in other words Denmark cannot pay in the coffee-exporter's currency, and import licences have not been granted in view of the exchange position.

With the intention of preventing a rise in the domestic price of coffee, whilst avoiding any further strain on the exchanges, Denmark offered to send other goods in exchange, and a barter agreement has been concluded whereby milk-conserves are sent to Brazil as a " Swop ".

It is also reported that Roumania desired to order armaments from Germany but was unable to provide " Free Exchange " in payment. She had, however, a surplus of wheat which was being held off the world market : although this is contrary to the general export policy which they had so far pursued, the Roumanian Ministry of Export granted permission for a special export of 3,500 waggons of wheat in order to get the order for munitions machinery placed.

These examples could be multiplied indefinitely ; many of them would not, however, particularly interest the reader, so the last instance given is one which affects this country.

Anglo-Roumanian Barter

The Anglo-Roumanian Payments Agreement (under which the "Clearing" was set up) specifically provides for the continuance of barter between the U.K. and Roumania. Trade of this type is usually initiated from the Roumanian end: the merchant there must usually first secure a permit from his Ministry of Industry and Commerce, but such permits are not needed in cases where certain exempted goods are exported (i.e. imported into the U.K.).

Where special permits have been granted, the holder has been instructed as to the manner in which the trade is to be operated: it is usual for the Roumanian merchant to be permitted to export a value of, say, £100x against which he imports from the U.K. £70x of British merchandise and arranges for the balance of £30x to be paid to the Bank of England for the account of the Controller of the Anglo-Roumanian Clearing. A considerable amount of timber coming from Roumania has been bartered in this manner. The proportion of imports which the Roumanian can bring in, and thus the reciprocal variable payable to the Controller, varies from one permit to another; further, the disposal of the retained sterling varies according to the permit granted by the Ministry, in some cases a greater or less proportion being devoted to the needs of the Roumanian National Bank or a larger or smaller percentage going to pay old trade debts.

It has been mentioned that where certain goods

form the basis of the barter, a permit is not necessary —such goods are the subject of a published list in which each commodity is allocated a percentage varying from Nil to 40%, that being the proportion of the invoice value which must be paid to the Clearing in London.

When barter goods are exported from Roumania, the seller declares them, and gets a responsible bank to guarantee the due deposit of the sterling proportion applicable. A copy of the export declaration is sent (with the shipping documents) to the British importer, who attaches it to the Clearing Office form which he completes in order to get the goods cleared through the customs, thus providing evidence of the barter basis. Meanwhile the Roumanian has received an acknowledgment from his National Bank of the guarantee mentioned above, and obtained the approval of his Department for the Regulation of Foreign Trade for specified goods to be imported to the value of the balance of sterling remaining after deduction of the percentage applicable to the original export. Thus the offsetting of goods against goods is accomplished in such a manner as to give Roumania a chance to pay off some of her old debts. Further, the exchange of currencies in the foreign exchange market is avoided : this is a prime necessity of the scheme, as otherwise Lei would be offered, on balance, and stability of rates would not be possible until a reversion to purchasing power parity had occurred.

Conclusion

It is hoped that this attempt to describe rather complex transactions in as simple a manner as possible will not prove misleading. It has been necessary to evade many points which would call for close consideration in an exhaustive account, and any merchant to whom " Barter " is offered should make himself familiar with the relevant publications of H.M. Stationery Office.

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